SMOKING DETERRENCE ACT OF 1978

95-2

HEARINGS

BEFORE THE

SUBCOMMITTEE FOR CONSUMERS

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

NINETY-FIFTH CONGRESS

SECOND SESSION

ON

S. 3118

TO CREATE PROGRAMS DESIGNED TO PROMOTE HEALTH THROUGH SMOKING DETERRENCE

OCTOBER 23 AND 24, 1978

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SMOKING DETERRENCE ACT OF 1978

MONDAY, OCTOBER 23, 1978

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE FOR CONSUMERS,
Lexington, Ky.

The subcommittee met at 9 a.m. in the auditorium, College of Agriculture, University of Kentucky, Lexington, Ky., Hon. Wendell Ford (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR FORD

Senator FORD. Good morning, ladies and gentlemen. If I could have your attention for just a moment, I would like to make an opening statement and then we will hear from three of the elected officials of Kentucky; the Governor, the senior Senator, and the Congressman from the Sixth District.

I want to thank so many of your for coming to this hearing today and for all of the work that was put into this hearing prior to today. I want to keep my opening remarks very brief because the reason we are here is to give you the opportunity to tell the Kentucky side of the story about the importance of tobacco to the economy of not only this State but other parts of the Nation.

Smoking has been under attack continuously since tobacco was first introduced over 400 years ago. The controversy over tobacco continues to simmer, not only in Washington but elsewhere.

For example, since 1973, at least 30 States and the District of Columbia have enacted laws that ban smoking in certain public places. Antismoking restrictions have been imposed in hundreds of local communities. And airlines are now considering banning smoking from all commercial aircraft.

The most recent controversy over tobacco at the national level has centered around the crusade of Health, Education, and Welfare Secretary, Joseph Califano, who has waged virtually a one-man war on tobacco. His requests for funds to carry out this campaign were substantially mollified by key tobacco-State legislators in Congress.

Even though we have been able to hold Califano at bay for the time being, several other attempts were made in the recently concluded 95th Congress to enact legislation that can only be characterized as punitive to the tobacco industry.

Among the most publicized of these legislative efforts were the bills introduced late in the session by Senator Edward Kennedy, and it is this legislation which is serving as the focal point for these hearings.

Even though the bills failed to be brought to the Senate for a vote, Senator Kennedy or others may reintroduce similar legislation—including a bill to tax cigarettes on the basis of tar and nicotine content—early in the next session of the 96th Congress.

Thorough and exhaustive hearings have been held to advance the reason why this legislation should be enacted, and every aspect of the health questions surrounding tobacco has been explored in great detail in hearings held by Senator Kennedy.

Meanwhile, those who oppose such an approach as the one Senator Kennedy who proposes have had little opportunity to make their views known for the record, particularly as it relates to the economic repercussions of such legislation.

The proponents of this legislation do not recognize that tobacco is a multibillion dollar business which makes a sizable contribution to the American economy.

They do not understand that more than 600,000 farm families—90 percent of the small family farms in this State alone—derive much of their income from tobacco.

And they will continue to refuse to consider the argument that the sheer economics of this situation dictate finding a solution rather than abolishing an industry.

This is the point that I, along with other tobacco-State Members of Congress, have been trying to get across for years, and our arguments are becoming time-worn and weary. We do not want the Congress to be a willing accessory to the further demise of the family farm, because unless we find a suitable alternative to growing tobacco, that's what will happen and the people are going to be left with only two choices—to leave the family farm or end up on welfare.

I intend for these hearings to reflect the serious nature of this situation. Hopefully, through testimony that will be presented here today and in Bowling Green tomorrow, we will be able to balance the record which at this point is tilted strongly in the antitobacco direction.

Abolishing tobacco from the American scene is not the answer to the questions which have been raised. Such an approach is unrealistic and unfair. It is also more than 300 years too late.

I eagerly look forward to the testimony this morning, and once again thank you for taking the time to provide your assistance in this matter which is so important to all of us.

[The bill follows:]

95TH CONGRESS
2D SESSION

S. 3118

IN THE SENATE OF THE UNITED STATES

MAY 19 (legislative day, MAY 17), 1978

Mr. KENNEDY (for himself, Mr. WILLIAMS, Mr. CHAFEE, Mr. RANDOLPH, Mr. PELL, Mr. RIEGLE, Mr. MCGOVERN, Mr. HART, and Mr. LEAHY) introduced the following bill; which was read twice and referred to the Committees on Environment and Public Works, Commerce, Science, and Transportation, and Human Resources jointly by unanimous consent

A BILL

To create programs designed to promote health through smoking deterrence.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That this Act may be cited as the "Smoking Deterrence
4 Act of 1978".

5 REGULATION OF SMOKING IN FEDERAL FACILITIES;
6 RESTRICTIONS ON SMOKING IN FEDERAL FACILITIES

7 SEC. 2. (a) Except as provided in subsections (b),
8 (c), and (d), smoking shall not be permitted in any en-
9 closed area open to the public in any Federal facility or in

1 any stairway, elevator, hallway, conveyance, waiting room,
2 reception room, conference room, or hearing room in any
3 such facility.

4 (b) Smokers shall be effectively separated from non-
5 smokers in any restaurant, cafeteria, snackbar, other dining
6 facility, recreation room, or lounge in any Federal facility.

7 (c) Each instrumentality of the United States shall use
8 reasonable efforts that do not result in excessive cost or
9 administrative disruption to effectively separate the work-
10 places of its employees who do not smoke and who wish to
11 be so separated from the workplaces of its employees who
12 do smoke.

13 (d) In planning, designing, purchasing, leasing, or oth-
14 erwise obtaining new facilities, each instrumentality of the
15 United States shall, to the maximum extent practicable,
16 insure the effective separation of smoking and nonsmoking
17 employees in such facilities.

18 "NO SMOKING" SIGNS

19 SEC. 3. In every area in any Federal facility where
20 smoking is prohibited under section 401, "No Smoking"
21 signs shall be clearly and conspicuously posted in sufficient
22 numbers and prominence to give notice to any person enter-
23 ing or occupying such area that smoking is prohibited in
24 such area.

1 ENFORCEMENT

2 SEC. 4. (a) The executive head or chief administrative
3 officer of each instrumentality of the United States shall be
4 responsible for enforcing sections 2 and 3 in any Federal
5 facility in which such instrumentality maintains offices.

6 (b) Not later than ninety days after the date of enact-
7 ment of this Act, the executive head or chief administrative
8 officer of each instrumentality of the United States shall
9 publish in the Federal Register regulations for the enforce-
10 ment of sections 2 and 3 including, but not limited to, ap-
11 propriate sanctions for noncompliance with such sections
12 comparable to sanctions for failure to comply with any other
13 applicable regulation affecting the health, safety, or well-
14 being of the public or the work force.

15 DEFINITIONS

16 SEC. 5. For the purposes of this Act:

17 (a) the term "smoking" means the smoking or
18 possession of a lighted cigarette, cigar, or pipe contain-
19 ing a tobacco product; and

20 (b) the term "effectively separated" means the
21 separation of areas in which smoking is permitted and in
22 which smoking is not permitted in a manner which
23 minimizes, to the extent practicable, the drift of smoke
24 from the smoking area into the nonsmoking area;

1 (c) the term "instrumentality of the United States"
2 means—
3 (1) an executive agency, as defined in section
4 105 of title 5, United States Code;
5 (2) the United States Postal Service;
6 (3) the Congress;
7 (4) the courts of the United States; and
8 (5) the governments of the territories and
9 possessions of the United States;
10 (d) the term "Federal facility" means—
11 (1) any building, installation, or facility owned
12 by the United States, excepting private residencies,
13 or;
14 (2) any part of any other building, installa-
15 tion, or facility, which part is owned or leased by
16 the United States, excepting private residencies.
17 EFFECTIVE DATE
18 SEC. 6. The provisions of this Act shall take effect
19 ninety days after the date of enactment of this Act.
20 ESTABLISHMENT OF A HEALTH PROTECTION TAX
21 SEC. 7. (a) Subsection (b) of section 5701 of the In-
22 ternal Revenue Code of 1954 (relating to the rate of tax
23 on cigarettes) is amended to read as follows:
24 "(b) CIGARETTES.—
25 "(1) IMPOSITION OF TAX.—There shall be imposed

1 on every cigarette manufactured in or imported into the
2 United States, regardless of weight, which contains—
3 "(A) from 10 to 19.9 toxic units, a health
4 protection tax of $0.0025;
5 "(B) from 20 to 29.9 toxic units, a health
6 protection tax of $0.0075;
7 "(C) from 30 to 39.9 toxic units, a health
8 protection tax of $0.015; and
9 "(D) 40 or more toxic units, a health protec-
10 tion tax of $0.025.
11 "(2) DEFINITION OF TOXIC UNITS.—For the pur-
12 poses of subsection (b) (1) above, the number of 'toxic
13 units' means the sum of—
14 "(A) the number of milligrams of 'tar', plus
15 "(B) 10 times the number of the milligrams of
16 'nicotine' which are contained in such cigarette.
17 "(3) DETERMINATION OF TAR AND NICOTINE
18 CONTENT.—
19 "(A) TESTING BY FEDERAL TRADE COMMIS-
20 SION.—The Federal Trade Commission (herein-
21 after referred to as the 'Commission') shall from
22 time to time (but at least once each calendar year)
23 determine or cause to be determined the tar and
24 nicotine content (calculated in milligrams per ciga-
25 rette) of each brand of cigarettes manufactured in

1 or imported into the United States. The conditions,
2 methods, and procedures for conducting such deter-
3 minations shall be promulgated by the Commission
4 in regulations issued by it for purposes of this
5 paragraph. Until such time as such regulations are
6 first issued, the conditions, methods, and procedures
7 for conducting such determinations shall be those
8 approved by the Commission for formal testing
9 which are in effect on the date of the enactment of
10 this subsection.

11 "(B) CERTIFICATION TO THE SECRETARY.—
12 During the last calendar quarter of each calendar
13 year, the Chairman of the Commission shall certify
14 to the Secretary the tar and nicotine content of each
15 brand of cigarettes manufactured in or imported
16 into the United States. Such certifications shall be
17 used by the Secretary to determine the rate of tax
18 to be imposed on cigarettes for the period beginning
19 with the first day of the calendar year beginning
20 after such certification is made, and during such
21 calendar year.

22 "(C) The Commission and the Secretary shall
23 promulgate regulations for the purposes of testing,
24 certifying, and imposing taxes under this subsec-

1 tion of any brand of cigarettes introduced to
2 sale.

3 (b) The amendments made by subsection (a) shall
4 apply to cigarettes which the manufacturer or importer of
5 such cigarettes requests (within the meaning of section
6 5702 (i) of such Code) within 120 days after the date of
7 enactment of this Act.

8 (c) The Commissioner and the Secretary of the Treasury
9 or his delegate shall promulgate regulations for the purposes
10 of section 5701 (b) of the Internal Revenue Code of 1954
11 within 60 days after the date of the enactment of this Act.

12 SEC. 6. There are authorized to be appropriated for
13 the fiscal years ending September 30, 1961, September 30,
14 1962, September 30, 1963, and September 30, 1964, those
15 amounts determined by the Secretary of the Treasury to be
16 equivalent to the taxes received in the Treasury under
17 section 5701 (b) of the Internal Revenue Code of 1954 for
18 the purpose of making additional payments to the States to
19 assist them in meeting the costs of providing preventive
20 health services under section 315 of the Public Health
21 Service Act. The amount of payments to the States shall be
22 determined on a per capita basis: *Provided*, That only those
23 States who are receiving grants under section 315 (b) (2) of
24 the Public Health Service Act shall be eligible to receive
25 payments under this subsection.

1 CHANGES IN LABELING FOR CIGARETTE PACKAGES

2 SEC. 9. (a) Effective one year after the date of enact-
3 ment of this Act, Section 4 of the Federal Cigarette Labeling
4 and Advertising Act (Public Law 89-92) is amended to
5 read as follows:

6 "SEC. 4. (a) It shall be unlawful for any person to
7 manufacture, import, or package for sale or distribution
8 within the United States any cigarettes—

9 "(1) if the package for which fails to bear the
10 tar and nicotine content of such cigarettes stated in
11 milligrams, and

12 "(2) if the package for which fails to bear one of
13 the following statements:

14 "(A) CANCER MAY RESULT FROM
15 CIGARETTE SMOKING;

16 "(B) CANCER OF THE LUNGS, MOUTH,
17 AND THROAT MAY RESULT FROM CIGA-
18 RETTE SMOKING;

19 "(C) HEART DISEASE MAY RESULT
20 FROM CIGARETTE SMOKING;

21 "(D) CIGARETTE SMOKING MAY
22 HURT YOUR HEART;

23 "(E) EMPHYSEMA AND CHRONIC
24 BRONCHITIS MAY RESULT FROM CIGA-
25 RETTE SMOKING;

1 "(F) CIGARETTE SMOKING DURING
2 PREGNANCY MAY DAMAGE THE UNBORN
3 CHILD;
4 "(G) YOU OWE YOUR BODY SOME RE-
5 SPECT—DON'T SMOKE;
6 "(H) SMOKER'S COUGH IS AN EARLY
7 SIGN OF LUNG DAMAGE;
8 "(I) IF YOU MUST SMOKE, INHALE
9 LIGHTLY—THIS MAY REDUCE THE RISKS
10 TO YOUR HEALTH;
11 "(J) DON'T SMOKE CIGARETTES TO
12 THE END—THIS MAY REDUCE THE RISKS
13 TO YOUR HEALTH.".
14 (b) The statements required by subsection (a) shall be
15 located in a conspicuous place on every cigarette package
16 and shall appear in conspicuous and legible type in contrast
17 by typography, layout, and color with other printed matter
18 on the package.
19 (c) Cigarettes shall be packaged for sale or distribu-
20 tion in such a manner so that each of the statements re-
21 quired by paragraph (a) (2) appears on 10 per centum of
22 all cigarette packages.
23 ESTABLISHMENT OF PROGRAM TO DETER SMOKING AMONG
24 CHILDREN AND ADOLESCENTS
25 SEC. 10. (a) The Secretary of Health, Education, and

1 Welfare, after consultation with appropriate public and
2 private entities, shall establish a comprehensive program de-
3 signed to deter smoking among children and adolescents.
4 Such a program shall include—

5 (1) the undertaking or support (through grants
6 or contracts or both) of biomedical and behavioral re-
7 search designed to increase understanding of the bio-
8 logical and behavioral determinants of smoking among
9 children and adolescents, with special emphasis on
10 children aged twelve or below;

11 (2) the undertaking or support (through grants
12 or contracts or both) of demonstrations and evalua-
13 tions of comprehensive community and school-based
14 programs designed to deter smoking among children
15 and adolescents; and

16 (3) grants to States or political subdivisions of
17 States to assist them in meeting the costs of operating
18 comprehensive community or school-based programs
19 designed to deter smoking among children and
20 adolescents.

21 (b) With respect to grants under paragraph (a) (3),
22 the Secretary and each grant applicant and recipient must
23 comply with the provisions of subsections (b), (c), (d),
24 (e), (f), (g), and (h) of section 317.

25 (c) (1) For the purpose of making payments for the

[illegible]

[illegible]

1 smoking cigarettes of varying levels of tar and nicotine and
2 (2) the health risks associated with smoking cigarettes con-
3 taining any substances commonly added to commercially
4 manufactured cigarettes.

5 (b) Within two years of the date of enactment of this
6 part, the Secretary shall report to the Congress the results
7 of the study or studies conducted pursuant to subsection (a)
8 and any recommendations for legislative or administrative
9 action.

Senator FORD. Our first witness this morning is the Honorable Julian Carroll, Governor of the Commonwealth of Kentucky.

STATEMENT OF HON. JULIAN M. CARROLL, GOVERNOR, COMMONWEALTH OF KENTUCKY

Governor CARROLL. Thank you very much, Senator Ford. I appreciate the opportunity to come and visit with this subcommittee for a few minutes this morning.

For the record, I am Julian Carroll, Governor of the Commonwealth of Kentucky. I appreciate the opportunity to appear today on behalf of those hundreds of thousands of Kentuckians who earn part or all of their livelihood from tobacco farming or who owe their jobs to tobacco-related industries.

As a practical matter, it strikes me immediately that the sliding tax as proposed in S. 3118 would be vary awkward for retail stores—and perhaps all but impossible for vending machines—to deal with. It appears that the tax would be 5 cents on every pack of one brand of cigarettes and all the way up to 50 cents a pack on others. That would be a nightmare to administer but, of course, that is not a major concern of the Kentucky State government.

I also foresee some problem for many restaurants and other public places in Kentucky—as in all the rest of the country—in trying to separate smokers from nonsmokers while still getting the maximum use possible of their facilities. Again, that is not a problem of government, and it would be practically impossible to estimate the cost of that requirement to our businesses. A cost which, of course, would be paid by the consumers.

The labeling requirements of this bill also seem to be somewhat extreme. In all honesty, I wonder if this kind of labeling really has any effect. It seems to me that you might just as well require all automobiles to carry signs saying: "Caution. Driving can be fatal."

I am somewhat gratified that this bill does finally order a study of health risks associated with smoking. I do note, however, that nothing is said in this bill to direct at least a part of that study toward discovering a way to remove from cigarettes whatever dangerous substances those studies might suggest are present.

That, to me, seems to be the direction in which most of the research should be concentrated. And I might also add that the research function mentioned in the bill would appear to be much more serious if money were specifically appropriated for it, as there is for research on behavioral aspects of young smokers.

Kentucky has for years been a leader in this kind of positive research on tobacco. That research has been financed by a State cigarette tax of one-half cents a pack. With those funds, the University of Kentucky has built up an impressive laboratory capability and staff specifically for performing research on tobacco. The Federal Government could perform a real service for millions of smokers in this country if they could give us some help to expand these efforts that we are now financing all by ourselves.

I won't sit here and try to tell you that this bill would kill the tobacco industry in Kentucky. But I will tell you that any taxing bill of this nature will be somewhat of an economic burden on certain seg-

ments of the tobacco industry. And when that occurs, some of our citizens will be adversely affected financially.

I cannot estimate for you just what the economic impact of this bill would be specifically on our tobacco farmers. But I can tell you what tobacco means to the economy of this State. If a bill like this is enacted into law, many of the people in this State who depend on tobacco for their livelihood will lose some of their income. And if this bill is followed by heavier taxing measures later, that injury will increase.

Some aspects of the tobacco industry is found in 118 of Kentucky's 120 counties. Altogether, nearly 300,000 people are directly involved in the production, manufacturing, and sale of tobacco and tobacco products. To give you some idea of what tobacco means to Kentucky, let me use just one county, as an example, Pulaski County, in south-central Kentucky.

Pulaski County has over 4,000 tobacco allotments—the most in the Commonwealth. This means that over 4,000 families in Pulaski County depend directly upon tobacco for all or part of their livelihood. In Pulaski County, the average farm family has more than four members, meaning that close to half of Pulaski County's 45,000 people are directly dependent upon tobacco production. The presence of an auction market creates additional jobs in the industry.

Efforts have been made in recent years to diversify Pulaski County's agriculture; to bring in the production of such things as processed vegetables, eggs, broilers, beef cattle, and grain. But only the farmers with large acreage have been able to diversify their operation. The vast number of farm families rely on very small acreage; too small for the production of any cash crop other than tobacco.

Many tobacco growers in Pulaski County already must rely on off-farm jobs for at least a part of their income. And, while the Somerset area has strong manufacturing, medical, and tourism industries, these cannot make up for income these families would lose if they did not grow tobacco.

I might also point out that tobacco and its associated businesses pour huge sums of tax dollars into the treasuries of State and local government in Kentucky. Some of those are: $22.3 million from the cigarette tax, $7.8 million in corporation income taxes, $15 million from sales tax on cigarettes, and $5 million in withholding on tobacco industry employees. That amounts to over $50 million that we can actually count.

Kentucky now has the fourth strongest economy of any State in the Nation. And agriculture is the second strongest segment of our total economy, being nearly a $2 billion industry. Tobacco accounts for 55 percent of our total cash receipts from farm marketings.

We are proud of the stability which exists in our Commonwealth and we have worked hard over a long period of time to strengthen the State's economy. Kentuckians can ill afford to have their economy disrupted by legislation which punitively attacks a single industry. I do not want this to happen and I know you certainly don't want it to happen and I know many other Members of the Senate and the Congress do not want it to happen, and we appreciate the opportunity to come and express ourselves on behalf of the Commonwealth in that regard today. Thank you, sir.

Senator FORD. Thank you very much. Governor.

The next witness this morning is the senior Senator from Kentucky, my colleague and good friend. Senator Huddleston. The Senator is a member of the Agriculture Committee. We will be delighted to hear from you at this time.

STATEMENT OF HON. WALTER D. HUDDLESTON, U.S. SENATOR FROM KENTUCKY

Senator HUDDLESTON. Thank you very much. Mr. Chairman. First of all, I want to commend you, Senator Ford, and the Subcommittee on Consumers of the Senate Committee on Commerce, Science, and Transportation for conducting these hearings. It's extremely important that we provide as much basic and factual information as we can to our colleagues as they consider legislation and proposals being made that will have a tremendous economic impact not only on our State of Kentucky but many other States. And indeed upon the entire United States as it respects the tobacco industry.

We know this Nation is a major exporter of tobacco. Tobacco plays a very important role in the balance of payments.

Economic factors are deserving of consideration. Of course, health factors are, too, and I know that you and I and other Members of the Congress give full consideration to that aspect of the problem also.

Mr. Chairman, S. 3118, the measure before this subcommittee today, attempts to stop 55 million of our citizens from smoking by making them feel like outlaws and by imposing a confiscatory tax on cigarettes.

One-fourth of the population of the United States smokes cigarettes. And what the sponsors of this bill want to do is have the Federal Government prevent people from smoking by behavior modification techniques.

It seems to me that this is the big brother philosophy of government, making people conform whether they like it or not. The Senators who have offered S. 3118 have selected one product and one product alone to try to say, "We will make you conform to our standards of how we think you ought to live," to the exclusion of all others.

To carry the logic of this thinking, one should say, "We are going to use the Government to make you not do anything that is injurious to your health."

Probably the most injurious factor to American health is that so many of us are too fat. So maybe we should enact a fat tax. On the first of every month, each person could weigh and if he or she were overweight, the Government could levy a tax on the poundage that was above normal.

S. 3118 has the potential to substantially change the smoking habits of the American public and totally decimate the tobacco industry. And I don't just mean cigarette manufacturers. Manufacturers, producers, warehousemen, dealers, distributors, and retailers would be out of business.

Do we want to tax out of existence products which we would not directly prohibit? The purpose of S. 3118 is to decrease smoking. This legislation says to the public that while Congress is not willing to take direct steps to ban certain products, we are willing to keep them out of the hands of those people who cannot afford them. This measure pro-

poses a new regressive tax that would discriminate against those in the lower income brackets.

What do we want to call this legislation? If we want it to produce revenue, then we want it to fail in its so-called health protection functions. On the other hand, if the sponsors want it to succeed as a public health measure, then its revenue producing potential would be considerably less.

Kentucky is a major tobacco-producing State—the income from which all aspects well exceeds $1 billion a year.

I frequently receive antitobacco mail from individuals who are residents of this great Commonwealth. And these people tell me that I should not defend tobacco because it really isn't important to the economy of Kentucky.

As chairman of the Senate Subcommittee on Agricultural Production, Marketing, and Stabilization of Prices, I feel that I am in a unique position to judge the value of tobacco not only to the Kentucky economy, but to the national economy.

Now the avowed purpose of S. 3118 is to prevent the citizens of this Nation from smoking and thus totally destroy the tobacco industry. Last year one of the antismoking organizations developed what it called its "target-five" project. This program similarly had the objective of destroying the tobacco economy. I want to relate an estimate of the impact on the Kentucky economy if the "target five" program, which included terminating the tobacco price support program, were successful. Kentucky tobacco farmers would immediately lose $680 million in annual income. Now the chairman, I think, has pointed out very well that the impact of the loss of cash tobacco sales would far exceed just that amount and would have greater implications for the total farming community in this State because there are many small farms operating today that would not be able to operate if they were to lose their annual cash crop of tobacco.

That would mean not only the loss of tobacco production and its economic impact, but it would mean the loss of other products that are produced by these smaller farms—dairying perhaps, the corn they would grow, grain, or whatever else they produce—and that would have a very significant impact upon the supply of feed-grains, meat, and other agricultural products in this country.

It would also have a great impact on the commercial enterprises that sell inputs to these farmers. It would be diverted to other uses very rapidly. Probably a good amount of land in Kentucky would be taken out of production.

Kentucky companies selling to tobacco farmers fertilizers, chemicals, gasoline, machinery, and other farm inputs would lose about $32 million a year. Kentucky merchants selling consumer goods would lose over $100 million annually. Kentucky tobacco manufacturers, wholesalers and retailers, would lose over $62 million in sales, and the Kentucky share of the Federal cigarette tax would drop by $19 million and the State treasury would lose $7 million. This tax money would have to be recouped from other sources, of course. And a reduction in land prices of tobacco farms would total more than a billion dollars.

Mr. Chairman, tobacco is a major agricultural commodity in the United States. It's grown on over 400,000 farms. There's currently

about 541,000 tobacco allotments. Last year the farmers of this Nation harvested nearly a million acres of tobacco. Tobacco production is very labor intensive, and around 300 man-hours are required to produce and market 1 acre of tobacco. Over a half million farm families are directly or indirectly involved in producing tobacco. Compare that 300 man-hours required to market an acre of tobacco to the 7 man-hours required to produce an acre of grain.

Tobacco is the fifth largest cash crop in the United States, behind corn, soybeans, wheat and cotton, and last year the farm value of the crop was over $[illegible] billion.

In my judgment, Mr. Chairman, S. [illegible] has no merit either from the standpoint of its revenue potential or from the standpoint of its potential improvement of our health in this country, and I will urge my colleagues in the Senate to see that it does not become law. I thank you very much.

Senator Ford. I thank my colleague for an excellent statement.

The next witness this morning is the distinguished Congressman from the Sixth Congressional District. He's done an excellent job representing rural America and rural Kentucky in setting up committees and focusing on problems relating to the agricultural community. It's my pleasure now to call on my colleague John Breckinridge to make a statement.

STATEMENT OF HON. JOHN B. BRECKINRIDGE, U.S. REPRESENTATIVE FROM THE SIXTH CONGRESSIONAL DISTRICT OF KENTUCKY

Mr. BRECKINRIDGE. Thank you very much, Senator Ford.

Senator Ford, Senator Huddleston, Governor Carroll, distinguished members of the panel and of the tobacco industry, I am anxious to join with my friend, Dee, in commending you, Wendell, and your committee for your initiative in this particular area involving not only tobacco, but perhaps even more importantly, the farming community which is also brought under attack by the legislation which we have before us today.

As you know, on the Hous[illegible], Congressman Walter Jones of North Carolina, of the House A[illegible]ture and chairman of its Tobacco Subcommittee, is conducting rural [illegible]ings at this time throughout the Tobacco Belt, undertaking to [illegible] for the record the economic impact not only of this measure, [illegible] any and all attacks that are directed at our support program.

I want to, if I may, this mor[illegible] to try to iterate the facts which are so familiar to all of us in the [illegible]try. I sometimes have the feeling that we're singing to the cho[illegible] we are a group under attack charged with a vested interest, and [illegible] the floor of our respective Houses therefore not viewed with too much sympathy.

I think perhaps the time has come for us to take perhaps a larger look at the component constituency which we represent and if I may, without going into too many specifics, for a few moments this morning I will try to develop that.

We happen to have throughout the United States some 20,000 small communities of 50,000 and less population and within the 18 tobacco-producing States we have approximately one-third of those communities, and when I say that I mean we have also, politically speaking,

those constituencies. We have, as the prior witnesses have already testified to, a broad component of support, if that support is mobilized, and I think the time has come to mobilize it.

I think the time has come at the national level, working through their local jobbers and distributors and dealers, to develop in pragmatic terms the actual impact upon the communities involved in these 18 States of the loss of the tobacco program which I think we would all agree will result primarily in the consolidation of acreage—not the limiting but rather the expansion of production; not the increasing but the decreasing of price and costs; and therefore, if anything, the inducement of more smoking.

So our problem is to come to grips with what is going to happen to the 2.7 million farm communities responsible for the production of the food requirements of the free world when we knock 600,000 members in the head by killing the program that makes it possible for them to augment their other agricultural sources of income.

I think that if we take the time and the trouble to put together, as Senator Huddleston has pointed out, the manufacturing and machinery equipment suppliers, the fertilizer manufacturers, the petroleum product producers, jobbers and distributors—and then let me suggest, even more particularly and importantly, the 14,000 banks or, if you will, the 7,000 small banks in the small communities of which I speak, who will tell you in no uncertain terms what will happen to the mortgage structure in those tens of thousands of communities absent the Christmas cash flow of tobacco money, and what will happen to the notes that are to be serviced by those farm families, and what will happen to Main Street which is accustomed to that cash flow at that time of year in Kentucky and at other times elsewhere.

And I think in this context, if we will perhaps redirect our efforts, we will find our constituency not limited to the Senators of 18 States and their opposite numbers in the House of Representatives, but to the industrial complex that is these United States, the financial structure upon which it depends, and to everybody's future, instead of Senator Kennedy's and those forces who would oppose us.

I think, Mr. Chairman, that your contribution here today is a major step in that direction and I'm going to urge upon my committee, as well as yours, the proposition which I have outlined here this morning with the suggestion that when we have concluded our hearings we undertake such a direct attack upon the establishment of an ancillary constituency which has an interest as vital as does the tobacco producers, as does the manufacturers, as does the exporter, and every other segment of the industry.

I thank you very much for letting me be with you today.

[The statement follows:]

STATEMENT OF HON. JOHN B. BRECKINRIDGE, U.S. REPRESENTATIVE FROM KENTUCKY

Senator Ford, Members of the Committee, Governor Carroll, Ladies and Gentlemen. I appreciate the opportunity to appear before this Field Hearing by the Consumer Subcommittee of the Senate Committee on Commerce, Science and Transportation regarding the economic impact on Kentucky's Tobacco Industry, economy, and the national economy of S. 3118, the Smoking Deterrence Act of 1978.

I understand today's hearings will focus on Senator Kennedy's bill, S. 3118, which, among other provisions, seeks to impose a nationwide tax on each ciga-

this hearing documents the fact that in addition to providing steady income and employment for the farm sector, tobacco production supports sizable service and marketing industries. For example, Kentucky farmers purchased fertilizer, gasoline, petroleum, machinery, custom and contract work, insurance, banking services, including loans and savings, utilities, food, consumer and durable goods, as well as professional services, and a host of other economic-related services: the curtailment, destruction or tampering in any way with the tobacco program would, I am convinced, have a devastating economic effect, not only in our state's 118 tobacco producing counties in Kentucky, but throughout the 651 counties in the nation representing 625,000 tobacco producing farm families in over 18 states, employing over 1 million persons. I submit to you that the destruction of the price support program will decimate this segment of our family farm population, concentrating production in an ever-increasing number of larger holdings, shifting tax revenue bases, reducing the capitalization of mortgages and land values, disemploy hundreds of thousands of employees, and stagnating the multitude of dependent small communities and their economies throughout the land.

The destruction of the tobacco small farmer and the Fiscal base he represents in the corresponding producing areas would prove incalculable. The record today and tomorrow at this hearing should point up to the economic importance of tobacco to Kentucky and throughout the nation in banking and fiscal matters, and in all services provided by our tobacco farmers.

Mr. Chairman, I understand the Subcommittee's desire to establish a hearing record to address Senator Kennedy's legislation.

The purpose of this hearing is to establish for the White House as well as the Congress, the importance of the industry to the American economy. I am convinced, however, that those areas directly related to the industry (processing, manufacturing, distribuion, etc.) alone are not he primary target to show the entire economic impact of damaging legislation relating to the tobacco industry rather the discontinuance of our support program would not immediately impact them except to the extent that the resulting consolidation of production would result in the loss of family farm labor-intensive production units and the consequent reduction of cash flow in hundreds of counties.

I shall eagerly review the hearing record and continue to support the tobacco program in what I am sure all of us here today know is the lifeline of Kentucky's continued economic survival and prosperity.

Senator FORD. Congressman, you make an excellent point. I'm delighted that you could be with us today and with the cooperation that is being established between the House and the Senate as it relates to the fact-finding and fact-gathering procedure.

Governor, I have a question or two for you and each of the members of the panel.

Tobacco, on the average, accounts for about one-half of the value of crops sales, just crop sales, in Kentucky. Is there another commodity that could replace tobacco in the industry's importance to Kentucky's economy?

Governor CARROLL. No. In our judgment, there is not. As a matter of fact, we have been attempting for some years now to diversify our broad-based tobacco and agricultural industry in Kentucky because of the threat that has been well known, of course, for some years to the tobacco industry, because if in any one particular growing season something happens that appears at least as a major threat to our cash crop, it can be devastating very much to our income in the Commonwealth. And so we have been attempting to find other kinds of cash crops that could supplant it, but we have found none that are so easily produced by so many families throughout the Commonwealth.

Of course, a large producer—somebody that has a large acreage and has the ability to invest in large machinery would have some ability to supplant his or her agricultural production in tobacco, but as you well known in most of the tobacco states tobacco is normally produced by

the small farmer on some very small acreage with little or no machinery involved.

I think Senator Huddleston pointed out the number of man-hours that goes into the production of tobacco, whereas the production of other crops doesn't nearly have that many man-hours. I think a commentary along the line that Congressman Breckenridge has just pointed out that interests me is, if we could go to one of our major apparel stores in Louisville, Ky., for example, and tell the retailer there that there will be no necessity for him going to Boston or to New York to buy a major supply of retail goods because the tobacco dollars that normally come at Christmas time won't be here; and then Senator Kennedy would be hearing from his own constituency, that constituency in Boston and a constituency even in New York outside his obvious jurisdiction, that provides the retail goods that come into our marketplaces that are bought with tobacco dollars; I think that is a strong argument that he has totally overlooked and one that we would only get the impact from should his legislation become successful.

So we diligently try to get their attention to let them know what they are doing to us and I guess the only way for us to ever let them know is if they are successful—to find men and women in New York and in Boston and other major cities out of work too because tobacco dollars are not available in the marketplace to buy their products that they are producing in those large cities.

Senator FORD. Governor, you made a statement earlier about the chaotic condition that would be presented in cigarette machines, whether it's 5 cents or 50 cents tax. The bill also mandates ten separate labelings to go on a pack of cigarettes and they have to be rotated among the packs of cigarettes. So if you think it's going to be chaos in the vending machines, wait until the manufacturer tries to determine how many packs of cigarettes he must put a certain label on. So it's just frought with all kinds of problems.

Senator Huddleston, you made a very excellent statement and let me ask you this question. Do you think our colleagues outside of the tobacco-producing States have taken full consideration of the economic importance of the tobacco industry as it relates to the national economy?

Senator HUDDLESTON. No, Mr. Chairman, I don't believe they have up to this point. It's a natural thing. There are some 7 States that produce a substantial amount of tobacco and I guess 16 or 18 different figures are used—but in that neighborhood—of States that produce some tobacco and therefore have a limited interest in tobacco production. But beyond that, most Members of the Senate think a great deal about their own State's interests and it's very easy for them to totally overlook the economic impact on one State or a few States in considering legislation of this kind. And the way the campaign has been presented, not only to Congress but to the American people, it's easy for a Senator or a Member of Congress who doesn't have constituents concerned with tobacco production to think that he's on the side of "motherhood and apple pie" by being against this product. And he feels he can strike a blow for those who consider health as a major congressional objective or a number of other things without being concerned about how it might affect his own State.

So we do have a job and it makes our job considerably more difficult in trying to impress upon our colleagues who don't have a direct interest in tobacco and tobacco production that this is a very significant thing. It not only affects those States in which tobacco is produced, although it of course affects us a great deal more severely, but it affects the national economy. At any rate, they ought to give consideration to what they are doing to a group of citizens of this country and what they might do as far as the economic impact is concerned.

Now Governor Carroll talked about the search for a substitute, which comes up frequently in the Senate. People will say, "Well, we'll help you develop another product, another crop." Well, there's a great deal of research that's going on and continuing right here at the University of Kentucky and other agricultural colleges to help farmers find ways to increase their income on the farm and find new crops, but when you consider the amount of land that is required to produce tobacco—and it ought to be remembered that of all those tobacco allotments, the average allotment is about an acre—it's based on poundage now but translating that into actual land, the average allotment is about 1 acre—so that's a very small amount of land to be committed to a crop that produces as much income as tobacco does.

We have our work cut out for us. I think we are fortunate in having you, Senator Ford, on the Commerce Committee and on the subcommittee dealing with this. As a member of the Agriculture Committee myself and chairman of the subcommittee that handles the tobacco program, we have an opportunity there to make some input, plus our position on the Appropriations Committee. But it's a never-ending job and one we will have to be alert to continually in trying to inform our colleagues about the magnitude of the problem that would be created by this kind of legislation.

Senator FORD. Although S. 3118 was not reported out of committee in this session of Congress, do you predict it will be reintroduced in the next session which starts January 15?

Senator HUDDLESTON. Well, I think it will be reintroduced either in its present form or in some modified form, and we can expect similar legislation to be coming from a number of different directions each session of the Congress, in my judgment. That's why these hearings are so timely at this point in providing a basic foundation of information that we can use to help dissuade our colleagues from supporting this kind of legislation, thinking that it sounds good and that it's going to benefit a great many Americans.

Senator FORD. Congressman Breckinridge, I want to ask you the same question I asked Senator Huddleston. Do you think your colleagues in the House who support antitobacco legislation have taken full consideration of the economic importance of the industry as a whole and as it relates to the national picture?

Mr. BRECKINRIDGE. Senator Ford, I would have to agree, of course, with you and my colleague, Senator Huddleston, that his observations to the effect that the very nature of the membership business is such that it is not possible for them to give the detailed attention to the specific problems of concern to my—in the House 435 Members constituencies and in your House the same problems, but only 100 men to represent those problems. I think that is one of the major contributions that this hearing and hearings like this can make.

Senator FORD. Thank you very much, John. I think you have made your point.

Before I let this panel go, I want to get back to Senator Huddleston's fat tax. If you're under it, do you get a rebate?

Senator HUDDLESTON. I thought about the chairman when I made that statement. It sure wouldn't cost you anything.

Senator FORD. OK. I want you three to know how much I appreciate you coming this morning and I think you have made excellent statements. The answers to the questions have been excellent and when we get back to our colleagues we will make those points known. Thank you all and we appreciate you coming.

If I might add, the young lady on my left is Amy Bondurant from Hickman, Ky., and she will be sworn in next Friday as one of Kentucky's new lawyers. So I want you to know that my legal staff is on my left. The young lady on my right is Martha Maloney from New Castle who received her master's degree from the University of Kentucky. The reason I do so well is because of these fine, intelligent young ladies. I do appreciate them both and their excellent help. Martha is on my staff and Amy is on the committee staff.

The next witness this morning will be the commissioner of agriculture, State of Kentucky, Tom Harris.

Good morning, Tom.

STATEMENT OF TOM HARRIS, COMMISSIONER, KENTUCKY DEPARTMENT OF AGRICULTURE

Mr. HARRIS. Mr. Chairman, I am Tom Harris, commissioner of agriculture of the State of Kentucky, and I will use most of my statement but I may hit a few highlights and add a little to it to improve it.

Senator FORD. That's difficult.

Mr. HARRIS. I'm pleased to be here this morning and to have the opportunity to appear before this distinguished subcommittee. It is a special pleasure for me to offer some comments, as commissioner of the Kentucky Department of Agriculture, regarding the economic importance of Kentucky's tobacco industry.

Before I discuss the economic considerations, I want to say, Mr. Chairman, that there are thousands of Kentuckians who are just as proud of their tobacco industry today, and perhaps even more so, than I can ever recall. And they are equally as proud of the fine reputation this State has nationally, and I might add, internationally, as a producer and supplier of high quality tobacco and tobacco products.

Kentucky farmers grow three kinds of tobacco; namely, burley, Fire-cured and Dark Air-cured. The latest USDA estimates indicate that Kentucky will produce some 454 million pounds or about 23 percent of the 2 billion pounds of the total U.S. production in 1978.

Kentucky ranks first in the production of burley tobacco. And is second only to North Carolina in the production of all types of tobacco.

Our State is the only one that grows Green River tobacco, a Dark Air-cured type, and we produce almost 50 percent of Kentucky-Tennessee Fire-cured tobacco. Kentucky also grows one sucker tobacco, producing about 80 percent of the national output for that type.

Tobacco is a highly "acreage-efficient" crop, permitting small farmers an opportunity to survive. Some 190,000 acres of prime agri-

cultural land were utilized to produce the 1978 crop. This acreage represents less than 1¼ percent of Kentucky's 15½ million acres of farmland. By comparison, it takes about 17 acres for soybeans to produce the same income that 1 acre of tobacco produces.

All but 2 of the 120 counties in Kentucky grow tobacco. This means that every time a tobacco farmer hires labor or purchases supplies such as fertilizer, chemicals, fuel, or seeds, or buys machinery and equipment necessary in growing his crop, he stimulates the local economy throughout this State. Economists estimate the statewide expenditures to local suppliers to be in the range of $325 million annually. It also has been estimated that tobacco farming provides the equivalent of 39,000 full-time jobs and some $150 million in wages and salaries for Kentuckians.

Tobacco is Kentucky's leading cash crop, representing on an annual basis more than 50 percent of the cash receipts from crops and approximately one-third of all farm income. Our farm marketings of tobacco are now at the $600 million sales level in cash income for Kentucky's farmers. At conservative economic estimates of a seven-time turnover for each dollar, that's a $4.2 billion boost to Kentucky's economy.

I want to emphasize, however, that the cash value from our tobacco has an even greater impact on the total farm economy, since tobacco money has for years been a reliable and dependable source of income. For example, during the past two disastrous winters when severe economic losses occurred within our livestock industry, the cash received from tobacco helped to pay the livestock bills, and to offset the loss of livestock income, thereby keeping many farmers from literally going under. And, over the years, I can recall the times, as can many of you here today, when tobacco, because of its stability in the marketplace, made the farm mortgage payment, provided a college education, or paid for food, clothing, and shelter; the necessities of life. It has been estimated that some 250,000 Kentucky farm families depend heavily on the direct cash income tobacco crops provide.

So, when I hear talk about reducing or curtailing our tobacco farmer's opportunities, my immediate response is to say that this is catastrophic action, not only toward the tobacco farmer, but to every segment of Kentucky's $1.9 billion agricultural income.

The economic impact of tobacco extends beyond the farm. Marketing of the crop involves 224 licensed tobacco auction warehouses located in 30 market centers. The investment in the warehousing facilities has been estimated to range between $60 and $90 million. Some 8,000 seasonal employees; for example, auctioneers, weighers, and bookkeepers assist in the marketing of tobacco.

There are some 26 stemming and redrying operations for processing the tobacco for storage. These facilities employ approximately 6,000 people. In addition, the trucking and railroad industries enter the economic picture by moving the tobacco from warehouse floors to greenprizing and/or the stemming and redrying facilities and then to storage until it is ready for use in manufacturing. Conservative estimates for these transportation costs have been placed at $3.7 million.

Kentucky is the third largest manufacturing State, making one of every five cigarettes or 20 percent of the Nation's output. In addition, 33 percent of the smoking tobacco, 60 percent of the chewing tobacco, and 8 percent of the cigars are manufactured in this State. The manu-

facturing plants employ an estimated 20,000 people and provide an annual payroll of $160 million.

For the fiscal year ending June 30, 1978, the cigarette tax yield to the Kentucky general fund totaled almost $22 million and the 5-percent sales tax from cigarettes yielded another $15 million of State revenue. A special tax on cigarettes yields some $4 million annually dedicated to tobacco and health research conducted under the auspices of the Kentucky Tobacco Research Board and the Tobacco and Health Research Institute at the University of Kentucky. This goal is and always has been to seek and find the truth and to do anything that might be possible as a result of seeking and trying to find the truth to promote the tobacco industry and the general welfare of the tobacco growers and the economy of the State of Kentucky.

Kentucky's farm real estate, including both land and buildings, has a value of $10.4 billion. Tobacco quotas increase these farmland values by almost $1.2 billion or approximately 11 percent of the total, and greatly improve the assessment for local tax purposes.

We all know that tobacco is heavily taxed by the Federal, State, and local governments with collections of almost $6 billion annually. Yet, we often hear comments that the Federal Government is subsidizing tobacco through the price support program. This is not true. There is a price support program, but it is not a subsidy program. The fact is, that if there is any subsidy, tobacco provides it for the Federal Government. Just look at the facts. During the period 1940 to 1975, the Commodity Credit Corporation loaned some $991 million to the burley tobacco price support program. Not only has every dollar been paid back, but the CCC, during that same period of time, received an additional $119 million in interest. The burley tobacco price support program hasn't cost the Federal Government one dollar, not one dime, not even one penny. It omre than pays its way.

And I might also point out that the 776 million packages of cigarettes sold in Kentucky last fiscal year yielded the Federal Government $62 million from the 8 cents per package Federal excise tax.

Mr. Chairman, I don't know what would happen if this bill were to pass, but if it did, you know and I know that every acre of tobacco could be different that's grown in the State of Kentucky and as we move from one county to another or one area to another the nicotine and tar content will change depending upon the manufacturer. If we are going to talk about having a bureaucratic agency and a tremendous amount of people to try to administer and run this program, then let them stay on this one because I know that thing will change and it will take a tremendous number of people to keep up with it if they are to tax that cigarette according to its contents, if they are going to add the 10 cents or leave this on or will this be the only tax we have or is it a revenue-raising tax?

Senator FORD. They don't understand. They don't understand 8 cents is already on it. They don't understand it. They just want to add it. They don't know they are going to lose something if they take it off. They don't understand the economics of it.

Mr. HARRIS. Mr. Chairman, I would hope they would leave it on. The tobacco industry has never tried to evade paying its share of the taxes and the Good Lord knows that they are paying it, not only their share but more than their share as compared to anything I can think

[illegible] I would think they would leave it on, and not get into the trouble it would have.

I have personally reviewed this [illegible] [illegible] [illegible]

if we knew what they were we would be growing them today, and I want you to know that I'm just not talking through my hat. I've grown every kind of crop and livestock and vegetable that's predominant in Kentucky and I don't know what we could use nor have I heard anybody else come up with what we could use to substitute in place of tobacco—to take 1¼ of the acres—that's all we're using—to take that amount of acres and produce that kind of money. I don't know what it could be to substitute. I wish we did.

Senator FORD. In other words, you think it may be devastating to the small farmers.

Mr. HARRIS. Those people would go on welfare. They would have no way to make it. That's the only stable crop they've got, the only stable income they've got, and when they start out in the spring they feel like they know approximately what they are going to get when they sell that in the winter and they can't do this with any other crop or livestock program. None of them are stable. And to these small farmers, as well as the big ones, if they don't have that stability, if they don't have that tobacco crop to depend on, many of them are going to lose their farms, they're going to lose their homes, they're going to be on welfare because they don't have any substitute to turn to.

Senator FORD. As Congressman Breckinridge said earlier, you involve the banking community and the small bankers. The farmer can go to his banker and borrow money based on the cash crop of tobacco which relates to all other operations on that particular farm.

I want to get back to another point and ask this question. Are Kentucky farmers and others concerned about the relationship between smoking and health?

Mr. HARRIS. Well, certainly we are concerned and I think that their concern has been shown at the time the bill was introduced in the General Assembly of the State of Kentucky. It was passed with the backing of the people back home and the folks that are smoking are the ones that are paying that tax, Mr. Chairman, and they are paying it to seek and find the truth and to try to help the tobacco and health research. I don't think there's anywhere else in the world where they have voted to tax a farmer's sale to try to help that industry any way they can, or at least to keep everybody honest as well, and if there truly is something harmful in there, then let us find it or we believe that through genetics—through mechanically some way—that we can remove that problem and have a safe product.

Senator FORD. I don't believe I have any other questions for you, Commissioner, this morning. I do appreciate your coming and I do appreciate your cooperation. I do appreciate the fine statement you have made this morning and I compliment you on the job that you're doing as the Commissioner of Agriculture. We have worked very closely the last 3 or 4 years and I look forward to doing that in the future. Thank you very much.

Mr. HARRIS. Mr. Chairman, thank you for those kind remarks and for the opportunity to be here this morning.

Senator FORD. The next witness will be the State senator, John Berry, from New Castle. John Berry has served in the State senate several years now and has been one of the agricultural leaders in the senate whose family background lends itself to being an excellent witness this morning and, John, I'm very pleased to visit with you this morning and have you here to testify and answer some questions.

In 1936 F. D. R. acknowledged in his bid for reelection that the New Deal philosophy which was designed to deal with postdepression problems, had set up in this Government in this country new instrumentalities and a new concept of the proper role of government. He admonished the American people that these new institutions and this new role of government must be watched and kept in check lest we shackle our liberties. We remembered the New Deal but forgot the admonition.

Since that time the Congress, the legislatures, and the bureaucracies of this country have rationalized and justified the intervention of government into every conceivable social, economic, and personal aspect of human existence. We have forgotten that the biggest objection to the adoption of the social security system was its questionable constitutionality. That is, the concept ran head long into what had been perceived historically as the proper role of government. Now we operate under the assumption that a well-staffed and financed bureaucracy acting pursuant to congressional and legislative wisdom can and should make life rosy for everybody; but there can never be enough law or regulation to eliminate human suffering, sadness, sickness, failure, despair, or folly, because we are human. We make mistakes. We exercise bad judgment. This is so not just because we are human, but because we have a choice and the right to choose implies the right to make the wrong choice.

Government denial of that right is justified only when by making the wrong choice we violate the rights of others.

I assume that the jurisdiction of the Federal Government to deal with this issue is not because it affects the health and welfare of the people, for if that were true the bill would address sugar and condiments of all descriptions—salt, cabbage, onions, french fries, fish, eggs, milk, and alcohol and all other products which have a multitude of harmful consequences such as diabetes, malnutrition, peptic ulcer, congestive heart failure, chloresterol, colic, allergic reactions, and cirrhosis.

Senator FORD. Did you say colic?

Mr. BERRY. Yes. Even Senator Kennedy would not argue that the health and welfare of the people of this Nation is more adversely affected by tobacco than by alcohol. Why are we then undertaking to deal with the tobacco products and not alcohol beverages?

I have been told that the justification lies in the fact that the Federal Government subsidizes tobacco. In the first place, this is untrue. The Government makes money available through the Commodity Credit Corporation for loans to tobacco cooperatives which they are obligated to repay. The loans have been repaid and the taxpayers of this country have never lost a dime on account of burley.

Secondly, there are similar Government programs for other farm products and some that involve actual subsidies—for instance, grain. Just as cigarettes constitute a tobacco product, alcoholic beverages constitute a grain product.

Again I ask, why tobacco products and not alcoholic beverages?

The right answer is for Government to make the facts as to the consequence of the use of both available to the public. This is already being done by Government and by the private sector as well. Government should regulate the sale of both products to minors but enlightened American adults should be left the right to choose. The crusaders chose

[illegible]

[illegible]

[illegible]

Senator FORD. Well, you made a statement a few moments ago which I noted. It's the first time I had heard it and I assure you it will be used again—that HEW spends more money than any country, outside of the U.S.S.R. Would you say that the tobacco and its revenue helped Mr. Califano carry out the other programs as it relates to HEW?

Mr. BERRY. You know, I have wondered what might eventually happen to such agencies as HEW if we continue to dcrease the sources of revenue and increase the cost of Government. One of these days we've got to look around for who's going to pay the bill and that brings into focus, it seems to me, one of the big objections to this bill, and that is its consequent cost and the effect that it has or the implications it has as far as the role of Government is concerned.

What right does Government have to involve itself in this kind of thing? Historically, philosophically, it never had that right, and that right has been injected through the rationalization of those who work in Government and who have promoted a very liberal philosophy in this country. It's a very dangerous thing. It's one you all are dealing with in Congress every day and are frustrated because there seems to be no solution. Yet this bill would increase the severity of the problem it seems to me.

Senator FORD. You make an excellent point. I find that many of the agencies and departments will legislate by regulation legislation that they fail to get passed. If you pass a bill and you leave out certain items they wanted very badly established, then they find a way to promulgate regulations and get around to having their legislation anyhow.

So what we find here is that if we give them the vehicle to develop regulations they are going to basically get what they want. It is a struggle that you have to stay on top of and I might just mention at this point that this subcommittee will hold hearings in the middle of November on how much regulations are costing the consumer in the United States and how much those regulations are fanning the inflation that we face in this country. I think we may come up with some very surprising facts relating to regulations and what "Big Brother" is doing in the name of the consumer.

John, I'm very pleased that you came this morning and I'm grateful to you. I look forward to working with you in the future.

Mr. BERRY. Thank you very much.

Senator FORD. Thank you.

Our next witnesses are Secretary Short and Director Scott of the Agribusiness Division of the Kentucky Department of Commerce, and Claude Vaughan. Claude, I understand you're going to give Secretary Short's statement, and both of you are here to answer questions and support one another and help me if you can.

STATEMENT OF CLAUDE VAUGHAN, EXECUTIVE DIRECTOR, OFFICE OF DEVELOPMENTAL PLANNING AND RESEARCH, KENTUCKY DEVELOPMENT CABINET

Mr. VAUGHAN. It's a pleasure to be here this morning representing Secretary Short in the development cabinet.

I'm going to deviate somewhat from my prepared statement because me of the numbers have already been produced and at your sugges-

Senator Ford. I'm going to talk about the economics of [illegible] al which I parenthetically should add seems to be somewhat of tch-22." It's very difficult to come to grips with this proposal m economics or a public finance standpoint.

ion 7 of S. [illegible] would amend the Internal Revenue Code [illegible] g a graduated production tax on the manufacture of cigarettes. ax would be related to the tar and nicotine [illegible] of tar and milligrams of nicotine [illegible] s. from [illegible] md. from [illegible] rl. from [illegible] rth. [illegible] amount [illegible]

[illegible]

In other words, cigarettes must be differentiated by time, appearance, place, or taste in order to prevent buyers from shifting to the low-price product. Admittedly, the product is differentiated in terms of toxic units; however, it remains a cigarette. Furthermore, implicit in the tax price differential proposal is the assumption that there exists no substitutability among various toxic units. The assumption is that a tax of $0.50 per pack or $5 per carton will induce the smoker to shift to the low-toxic cigarette that has a toxic .05 per pack or 0.50 per carton toxic tax on it. I admit this is the probable outcome of this proposal. However, one must wonder what is to prevent the smoker from substituting low toxic cigarettes for high toxic cigarettes in the ratio of 4 to 1. I suppose the only constraint there would be the amount of time one has to smoke. It also should be noted that the saving would amount to $0.30 per four packs or $3 per carton. It is also possible to substitute pipes, cigars, and roll your own for cigarettes. I am reasonably confident the dedicated smoker can easily estimate the saving that would result in this substitution.

If this taxing scheme was initiated, I would venture a guess that the impact on total amount of toxic units consumed would in fact be negligible. The impact would probably be an increase in equilibrium price in the neighborhood of $0.15 per pack, $1.50 per carton, with the consumer smoking more of the low toxic effect, less of the high toxic effect cigarettes. The net effect in toxic units consumed would therefore be zero.

If, however, this proposal is instituted, the effect of shifting from high tar-nicotine tobacco to low should be examined. It logically follows that manufacturers would substitute low toxic tobacco for high. Farmers would begin to shift production to these varieties, and under the present state of the art, they would attain lower yields per acre with about the same cost they now incur. This might allow a 5 to 10 cents a pound increase in the cost of production. The question that has to be asked is, how quick can producers shift over to these varieties and at what costs? Quite obviously, in the short run, this could very well be catastrophic for the tobacco producing farmer. This may well contribute to the elimination of Kentucky's small family farmer who entirely depends on tobacco as a source of income or a large portion of his income.

Finally, I would like to pose the question: When is Congress—and I don't mean this as an indictment of you, Senator——

Senator FORD. You can make a broad brush. Go ahead.

Mr. VAUGHAN. When is Congress and the American public in general going to learn about the role relative prices play in resource allocation? Energy is an example and in this instance it's the antithesis of the cigarette proposal, that artificially low prices will simply not make it attractive for resources to be channeled into solving the problem. The net result in terms of energy would be either a huge Government subsidy or an energy crisis of enormous magnitude.

In terms of tobacco, apparently national prohibition has taught us very little about relative prices and resource allocation. If a supply of a commodity or service does not exist, somebody will move into the void if sufficient demand exists to justify the venture. Bootlegging of cigarettes from low tax States to high tax States is a common phenomenon. It occurs because of pricing differentials that exist be-

cause of taxes. I can't help but ask myself the question, why do we want to pursue a policy at the national level which will encourage or further encourage an undesirable element to engage in smuggling cigarettes not from State to State but from Canada or Mexico to the United States? If the price differential is high enough—and we're talking about the difference between $1.50 and $5 a carton—you can rest assured somebody will take the chance.

I would just like to say that the application of this tax could have a grave impact on the tobacco industry in Kentucky. If the tax were applied in its higher ranges, it might even destroy the industry, and this would have a deleterious effect on the Commonwealth's economy as a whole. Its effect would be twofold as it impacts on both the producers and the processors.

First, Kentucky's tobacco producers received approximately $530.2 million in 1977 from tobacco sales. The destruction of the tobacco industry would not only incur this loss but also an additional $529.2 million which would be generated in the economy by the farmers. Additionally, many of Kentucky's small family farms would probably be put out of business in the absence of tobacco revenues.

Second, cigarette manufacturers added $699.6 million in value to the product in 1977. The dissolution of the industry would not only result in the loss of this income but also in an additional $640.4 million generated in the economy. The processing and handling portion of the tobacco industry also employs 14,200 workers who create support for another 17,040 workers in other sectors of the economy.

The tobacco industry also contributes revenue to the Commonwealth of Kentucky in the forms of various taxes. In 1975–76 these taxes—including the corporate taxes for 1975—amounted to $30 million.

In summary, it is questionable to jeopardize a State's tobacco industry by such dubious means as this tax when the industry has a total impact of $2.36 billion and an employment effect of 31,240 jobs on the private economy and $30 million effect on the public sector—$45 or $50 million of tax revenue collected at the State level. This does not—and Senator Barry alluded to the problem of the local level of tax collection. I think that, Senator, you have an appreciation for the problems at the State level and the impact this would have on the general fund of how you are going to provide services for the people of the State of Kentucky without increasing taxes. If we lose $45 million of revenue, I think it's obvious what would be the outcome. The services will have to be cut at the State level and the taxes increased.

This proposal simply doesn't make any sense from a development aspect or from a public finance aspect and from any other aspect that I can think of at the present time. Thank you, sir.

Senator FORD. Thank you very much for a very enlightened statement.

Mr. Vaughan, let me ask you one other thing. Did you get into additional cost that might be contained in this bill as it relates to the manufacturing of cigarettes, that is, the 10 labeling language that must be rotated among cigarettes?

Mr. VAUGHAN. No, I didn't.

Senator FORD. You just stated what this proposed legislation would cost the farmer and its effect on the economics of the State and the

relative problems that would be presented. Did you get into the bureaucratic cost?

Mr. VAUGHAN. This is what I referred to as a "Catch-22." When you talk about the bureaucratic cost and the labeling cost, it would probably be another 2 or 4 cents per package. You can estimate the bureaucratic costs.

In terms of employment, we talked about that at the State level. It just seems to me, especially in the immediate short run, that by "Catch-22" I mean we continue to talk about improving the employment situation in the Nation and then we propose policies that are going to negate that. It simply doesn't make any sense.

Senator FORD. Jack, I understand you have a statement, so rather than go on with any other questions, I will let you proceed with your statement.

STATEMENT OF JACK J. SCOTT, DIRECTOR, AGRIBUSINESS DIVISION, KENTUCKY DEPARTMENT OF COMMERCE

Mr. SCOTT. Thank you, Senator Ford, I will keep my remarks brief, but this impact is a tremendous thing that it could have on our economy and, of course, all of these facts and figures have been given, but an overriding thing is that growing tobacco is the lifeblood of the rural economy of Kentucky.

You've got not only the growing, but the selling, the warehousing and the processing of tobacco. I think the most recent statistics there on annual income was a little over $600 million in 1977, so that would be an increasing thing along with our inflation.

It's been mentioned about these 143,000 burley quotas and 23,000 dark tobacco quotas having a great impact on land values in Kentucky. The exports, too. We have been in a squeeze with our dollar falling in value overseas in relation to the yen and the mark and so forth, and annual foreign exports of tobacco from Kentucky exceeds $200 million and we certainly need this foreign exchange to balance this trade deficit that we have. In fact, our agricultural segment is kind of holding up the rest of the country and letting us bring some of this oil in.

Then there's the jobs, and these jobs that are direct have much effect on our merchants, our people in schools, our retailers, everything in our smalltown economy.

And so, overall, our State is heavily dependent upon our tobacco and, as has already been said, tobacco is not a luxury. It's a necessity of life. You can double the price of cigarettes and it would force many people to do without necessities to go on and buy cigarettes. To destroy this tobacco industry with tax legislation would be demoralizing to say the least.

I think smoking is a moral issue that cannot be legislated, but, above all, is this fact that historically and at the present time, the overriding factor is that in Kentucky, growing tobacco is a way of life. The small farmer has been able to provide a wholesome standard of living for his family and any drastic change would put many, many people on the welfare rolls. It would affect not only those farm families, but employees of the tobacco industry, our smalltown merchants, our schools, our government units and on down the line. It's just

[illegible]

COMMENTS ON THE IMPACT OF S. 3148 ON KENTUCKY'S ECONOMY

Tobacco in Kentucky's economy

In order to conceptualize the impact S. 3148 would have on Kentucky's economy it is important first to understand the extensive role tobacco plays in our economy.

Tobacco is Kentucky's number one cash crop with cash receipts from sales of tobacco leaf in 1977 of $619 million, according to U.S. Department of Agriculture estimates. Over 46 percent of total cash crop receipts in Kentucky is

derived from tobacco. Kentucky has about 125,000 farm families who derive a substantial part of their income from the growing and harvesting of tobacco. There is no comparable substitute cash crop for these families. Kentucky tobacco farmers buy fertilizer, farm machinery, other farm supplies, automobiles, and consumer goods, and do business with local banks. They also pay state and local taxes.

Cigarette manufacturing is a major industry in Kentucky. Three major cigarette manufacturers employ about 9,000 people in four plants. As of June, 1977, the average hourly wage rate was $7.16 per hour in cigarette production. In 1977, almost 18 percent of the nation's cigarettes were produced in Kentucky. Brown & Williamson Tobacco Corporation, the third largest cigarette manufacturer in the United States, is headquartered in Kentucky and is one of the largest taxpayers in the state.

Kentucky has 21 leaf processing plants and one large tobacco machinery manufacturer. There are 219 tobacco auction warehouses in 30 communities in Kentucky.

Cigarettes are sold by the manufacturers either to wholesale distributors or direct buying retail chains. There are 44 wholesale distributors in Kentucky and their businesses are dependent upon cigarette sales.

At the retail level cigarette sales are important sales contributors to many stores, such as convenience stores, drugstores and supermarkets. In convenience stores nationally cigarette sales are 16 percent of total sales. One Kentucky convenience store chain has sales estimated at $92.8 million. Applying the national estimate of percentage sales of cigarettes, that one convenience store chain alone would have annual cigarette sales of nearly $15 million. Cigarettes are also sold to consumers through cigarette vending machines owned by more than 100 cigarette vending businesses. Obviously, cigarette vending operations are dependent upon cigarette sales.

All of these businesses buy supplies from other Kentucky businesses, pay state and local taxes, and employ substantial numbers of Kentucky citizens who buy consumer goods in Kentucky and also pay state and local taxes. Tobacco dollars dollars go through many pockets.

The impact of S. 3118

Relying on data published in the most recent "tar" and nicotine reports of the Federal Trade Commission, two of the three largest selling brands in the United States, one of which is manufactured by a Kentucky based company, would each have 30¢ per package federal cigarette tax under S. 3118. This would be an immediate increase of 22¢ per package in the federal tax causing an increase of 40 percent in the average national retail price of those two brands and an increase of 53 percent in the average retail price in Kentucky of the brands. Many popular brands would be taxed at the rate of 50¢ per package, which would double the retail price.

The tax would cause administrative and mechanical hardships on the distribution chain. The tax structure proposed in S. 3118 would result in five different retail prices for cigarettes. There are more than 160 brands of cigarettes on the market today, several new brands are introduced each year, and the "tar" and nicotine content, on which the tax levels are based, is constantly changing for present brands.

The problems of accounting for, shipping, stocking, and displaying to customers more than 160 different brands of cigarettes with each one marked and placed in its proper tax category would be a nightmare for all levels of the trade and would further increase price. Because of the mechanical limits of vending machines and the need to stock several varieties of cigarettes to have adequate sales volume it is questionable whether cigarette vending businesses would be able to continue operation. The tax would cause huge increases in the cost of financing inventories for all businesses selling cigarettes.

The tax provisions of S. 3118 would cause a severe reduction in cigarette sales. The reduction is difficult to forecast, but it could approach the magnitude of 50 percent. The resulting loss to Kentucky's economy would be devastating. The shock wave would travel in undiminished strength through the entire tobacco economy and would be felt everywhere tobacco dollars go.

The loss to Kentucky of tax revenue would be substantial. In 1977 Kentucky realized $23,588,000.00 in gross state cigarette tax revenues. If cigarette sales decline 50 percent as a result of S. 3118 Kentucky would lose nearly $12 million in cigarette tax revenue. The greatest loss would be the loss of tax payments at

the state and local level by cigarette manufacturers, other tobacco businesses, and associated businesses and their employees caused by sales decline.

The important work of the Kentucky Tobacco Research Institute would suffer because it is funded from cigarette tax revenues.

The injury to Kentucky's economy and the tax revenue loss would be particularly tragic. The state is just beginning to see concrete results from hard work on its program of developing economic growth in Kentucky led by Governor Julian Carroll and former Governor Wendell Ford. Kentucky's economy has become the third or fourth fastest growing economy among the states. Kentucky is finally beginning to find the money to raise teachers' salaries and increase the quality of education of school children in the public schools. S. 3118 could destroy all this for Kentucky.

It should be noted that S. 3118 is an unnecessary tax. The intended effect of the tax is to cause the marketing of cigarettes with lower "tar" and nicotine content. The free market system is achieving that result without government intervention. In 1955 the average yield of "tar" was 43 milligrams and the average yield of nicotine was 2.8 milligrams. The FTC reported in May of 1978 that the average yield of "tar" was 15 milligrams and the average yield of nicotine was 1 milligram. This is a reduction of approximately 65 percent from the 1955 averages. The market share of brands yielding 15 milligrams of "tar" or less grew from 3.8 percent of the total market in 1971 to 26 percent at the end of 1977, with a projected growth to 41 percent by the end of 1980. Cigarettes are already available on the market nationwide with as low as 1 milligram of "tar". This is an astounding change in a consumer product and it eliminates any need to enact a tax structure designed to bring about the same change.

The consumer is a part of the Kentucky economy which must not be forgotten. It is improper to impose taxes on a consumer product amounting to 63 percent of the retail price (for the 30¢ per pack brands). The cigarette tax is a regressive tax and falls hardest on those who can least affort to pay. A 1974 U.S. Department of Commerce study estimated that 36 percent of the families in the United States had total annual earnings of less than $10,000. Kentucky surely has its share of such families. Cigarette smokers in these families would either suffer increased economic hardships or be deprived of the basic consumer's right to buy their favorite brand.

Other provisions of S. 3118 could have dramatic adverse effects on Kentucky's economy and must not be ignored. The first sentence of the printed bill is "A bill to create programs designed to promote health through smoking deterrence." It is clearly the purpose of each provision of S. 3118 to reduce cigarette consumption.

The provisions for comprehensive education programs to deter smoking and research programs could be used to seriously injure the tobacco industry, and thus Kentucky's tobacco economy, in the hands of powerful federal bureaucrats already dedicated to reduce smoking. Propaganda disguised as "education" and the publication of preordained research results could reduce cigarette sales as effectively as any other method.

It must not be assumed that the programs should be accepted because they are merely public information programs. The goal of an information program is to inform consumers so that they can make knowledgeable choices. In contrast, S. 3118 would authorize education and research for the explicit purpose of deterring smoking. An accurate, balanced and unbiased public information program about smoking would be unnecessary, anyway, because poll after poll has shown that Americans are already well informed about the alleged dangers of smoking. The education and research programs would be run by the Department of Health, Education and Welfare, which has already declared a war on smoking. HEW's top officials recently publicly criticized an employee for announcing research conclusions that some cigarettes had tolerable risks for smokers because the conclusions were different from HEW policy. Consequently, it is probable that the program authorizations in S. 3118 would be in practice only more ammunition for the war on smoking.

Conclusion

The tobacco tax for the research and education provisions of S. 318 can drastically reduce cigarette sales to the consumer. If the consumer does not buy cigarettes, the retailer cannot buy them from the wholesaler, the wholesaler cannot buy them from the manufacturer, and the manufacturer cannot

buy tobacco leaf from the growers. Tobacco plays a pervasive role in the Kentucky economy and S. 3118 would deal Kentucky a hard blow.

Senator FORD. Thank you very much, Jack. I have a couple of questions that I want to get into with you gentlemen.

In Commissioner Harris' written statement he said that production of tobacco in Kentucky required the labor equivalent to 39,000 full-time jobs. Now from the development of cash, can you give me the average number of new industry jobs opening up in Kentucky each year?

Mr. VAUGHAN. Between 1960 and 1976, we have had a total of approximately 33,000 new jobs created each year. Now 26,700 were in nonagriculture. This would be primarily service industries and around 5,856 in manufacturing. However, I think it's important to note in this regard, and we have just finished an analysis of the changing of the structure of Kentucky's economy since 1960. From 1960 on there were 37 percent of the labor force employed in agriculture and by 1976 this had declined to 12 percent. Now this amounted to 75,000 jobs that have moved out of agriculture. So if you take the 39,000 that are employed in the production, distribution, and manufacturing of tobacco and you add that to the 33,000 new jobs that have been created, I think you can see the importance of the tobacco industry in absorbing these resources that have been released from the agrarian sector because primarily agriculture has been over the years much more capital intensive, with the exception of tobacco which is labor intensive. So I think you can see the importance there in terms of the economy of Kentucky. You're talking about 39,000 people gainfully employed, paying taxes. It would be catastrophic if these people would be on welfare. Of course, there's a multiplier effect, both positive and negative, and as you withdraw income from the incomes stream it would be catastrophic on the State of Kentucky.

Senator FORD. Let's just suppose that tobacco production was seriously curtailed. I believe you stated that we have about 5,600 or 5,800 new manufacturing jobs yearly.

Mr. VAUGHN. Yes, sir.

Senator FORD. And these are jobs to which farmworkers could more easily adapt. What would most of the people do who are dependent on their work with tobacco? Welfare?

Mr. VAUGHAN. I think you could make a good case for welfare. It's a much more complicated problem than that. It depends upon the training that the people have. If you take the exodus, say, from the Deep South to the North, the result there over in the 1950's and 1960's, the outmigration, was the establishment of the ghetto in the Northern city because the people that moved and their lack of training. It depends so much on the manpower availability and educational level of the residuals who are left behind who cannot migrate.

However, we have a problem in this country right now with capital accumulation. Manufacturing as a percent of the labor force has been declining significantly throughout the Nation. So it would take a little bit more study, but I would venture a guess that it would be very difficult, given the current situation in the national economy, to absorb these people in the immediate short run.

Senator FORD. One final question. This is to you, Jack.

In your written statement you note that [illegible] in the marketing of cigarettes [illegible] and you say here that this would [illegible] Would you explain [illegible]

Mr. [illegible]

[illegible]

STATEMENT OF ROBERT [illegible] TOBACCO [illegible] COMMODITY [illegible] DIVISION, DEPARTMENT OF AGRICULTURE

[illegible]

Economics, Statistics, and Cooperatives Service. I have the responsibility for the Department's research on the economic situation and outlook, and supply and demand analysis for tobacco, including publication of the quarterly report, Tobacco Situation.

You have asked for testimony in reference to the report, "The Economic Importance of the U.S. Tobacco Industry." Last year, the U.S. Department of Agriculture Tobacco Task Force, prepared this material at the request of Mr. P. R. "Bobby" Smith, task force chairman. The report was released in May 1978.[1]

This report largely summarizes available information on a national and State basis to show the absolute and relative importance of the tobacco industry for various sectors of the economy, including farm, manufacturing, retail, and foreign trade. For some States where data were incomplete, we made estimates to show the magnitude of the industry.

I will summarize some aspects of the size and structure of the tobacco industry. Tobacco products' demand is national in scope while tobacco growing, manufacturing, and exports are concentrated in a few States.

Tobacco has dropped in overall importance in U.S. agriculture, but it still represents over $2 billion in gross sales and a substantial cash crop, particularly in the Southeastern United States. It is the leading cash farm income source in Kentucky, North Carolina, and South Carolina, and ranks high in Georgia, Maryland, Tennessee, and Virginia. Counting allotment holders, growers, and seasonal laborers, over 1 million persons receive income from the sale of tobacco.

Tobacco growers have overwhelmingly favored marketing quotas and allotments authorized under the Agricultural Adjustment Act of 1938, as amended. These allotments, together with stabilization pools for surplus tobacco, protect growers from price instability so characteristic of many commodity markets.

Under the tobacco price support program there are no direct payments to growers, but Commodity Credit Corporation—CCC—loans are made available through producer associations with the tobacco as collateral. The associations arrange for processing and storing the tobacco, and repay the loans with interest as they sell the tobacco. Since 1933 about $5 billion has been loaned to tobacco producer associations with about 1 percent loss rate on loans, the lowest of any major commodity program.

Over the past 10 crop years, the annual quantity placed under loan has ranged from 2 percent to 21 percent of marketings for Flue-cured and from zero to 27 percent for burley. In some years, prices received by growers for tobacco would have been less without the price support and loan program.

About 90 percent of the $17 billion of tobacco products annual sales represent cigarettes. Three States, North Carolina, Kentucky, and Virginia, have accounted for virtually all the employment and value added in the cigarette industry. A factory at Macon, Ga., began production last year. Cigarette manufacturing is concentrated in a few cities such as Winston-Salem, Richmond, and Louisville, where the

[1] See Robert H. Miller, "The Economic Importance of the U.S. Tobacco Industry," prepared for USDA Tobacco Task Force, May 1978, 33 pp. Also printed in Congressional Record, May 19, 1978, pp. H-4330-36, and May 25, 1978, pp. S8328-34.

economic effects are substantial. Tobacco employment has remained relatively stable while general statewide employment has increased. So tobacco manufacturing's contribution to the economic activity of Kentucky, North Carolina, and Virginia has declined to about 1 percent of employment.

Cigarette manufacturing is concentrated in six companies. The strength of the industry is indicated by its substantial sales and profits, which have been mobilized to diversify the firms to nontobacco lines as well as overseas operations.

Federal and State tobacco taxation is the third element in the economic importance of tobacco. Federal and State tobacco tax revenues total $6 billion annually—$2.4 billion Federal and $3.6 billion State. The Federal cigarette tax rate has remained the same since 1951. With additional unit sales, cigarette tax collections have increased, but have not kept pace with the rapid increase in other Federal taxes. Federal cigarette taxes declined from 2.3 percent of total collections in 1952 to 0.6 percent in 1977.

With the Federal cigarette tax stabilized, States have become active in taxing cigarettes. State collections surpassed the Federal cigarette taxes in 1969; and in fiscal 1977, 10 States each collected over $140 million in cigarette revenues—New York, Massachusetts, Michigan, Ohio, California, Texas, Illinois, New Jersey, Pennsylvania, and Florida.

Despite the cigarette-health controversy, antitobacco sentiment, and increasing revenue needs of State governments in the past 2 or 3 years the cigarette industry appears to have blunted the push for higher cigarette taxation. Retail cigarette price increases have been below the price hikes generally in the economy but different tax rates among States have led to substantial interstate sales and smuggling. Thus, State cigarette taxation appears restrained.

Exports of manufactured tobacco products and unmanufactured leaf tobacco have contributed substantially to the U.S. balance of payments with other countries. Our price levels are well above those of most competitors, yet the high quality of U.S. products enables U.S. firms to compete. For the 12 months ending June 30, 1978, U.S. exports totaled $1.8 billion—$1,140 million of leaf tobacco and $670 million of products, chiefly cigarettes. U.S. firms imported about $400 million of tobacco during the same period for blending with domestic tobacco, so we had a net favorable trade balance of $1.4 billion.

Tobacco has usually been eligible for Government export credit assistance on a similar basis as other commodities. However, this form of assistance has been typically limited. Export payments were discountinued in 1972. A very small share of exports—around 3 percent—move each year under Public Law 480—Government-financed sales for foreign currency.

In summary, tobacco is important economically as a source of farm income, a manufacturing industry, a source of tax revenues, and as a conrtibutor to foreign exchange.

Mr. Chairman, that concludes my prepared statement. I will be glad to respond to any questions.

Senator FORD. Mr. Miller, we appreciate your fine statement and I think you covered basically the categories that we were interested in today and pointed out very well how tobacco helps to balance our trade

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deficits. We had a surplus there, in excess of almost $1.4 billion, I think you said, and I think attention has been focused recently on the President's new export policy.

Will this policy affect tobacco's export in your opinion?

Mr. MILLER. Mr. Chairman, I am unable to respond to this question on the specific details, but in general, tobacco exports depend on the supply of tobacco available in this country and the decisions of foreign tobacco manufacturers to purchase in relation to the price and the quality of our tobacco and if you desire further details I will be glad to supply this information for the record.

Senator FORD. I would appreciate it if you would, at your convenience, see that the committee receives this information.

Mr. MILLER. Certainly.

[The following information was subsequently received for the record:]

President Carter recently announced (September 26) a new program of initiatives to enhance exports of U.S. agricultural and industrial products. The measures are intended to help reduce the U.S. trade deficit, strengthen the dollar, and contribute to the Administration's efforts to combat inflation and unemployment.

The export program consists of three broad sets of goals: (1) Increased direct assistance to U.S. exporters; (2) reduction of domestic barriers to exports; and (3) reduction of foreign barriers to U.S. exports to secure a fairer international trading system.

Among the actions announced to achieve these objectives is expansion of loan authority for the Export-Import Bank from $700 million in fiscal 1977 to an estimated $4.1 billion by fiscal 1980. This will improve the Bank's competitiveness and provide more flexibility in its terms for financing U.S. exporters.

Other measures include an expanded role for the Small Business Administration in assisting small busines exporters and expanded funding for export-promotion ventures of various Federal agencies.

Among the agricultural programs and measures endorsed by the President are opening of Agricultural Trade Offices abroad, increased funding for the Foreign Agricultural Services cooperator program, and authority for Commodity Credit Corporation loans in excess of 3 years for selected agricultural exports.

This new policy along with the market development and new credit provisions of the Agricultural Trade Act of 1978 will help to boost U.S. exports of tobacco and tobacco products.

Senator FORD. How is the $6 billion annual Federal and State tobacco tax revenue used?

Mr. MILLER. Mr. Chairman, the Federal tax revenue goes to the general revenue of the Federal Government and so, of course, it is used proportionately for every Federal expenditure, whether it be defense or welfare or research and so forth. It does not go into a specific trust fund.

By and large, this is the same pattern at the State level. It's my understanding that the pattern that you have in Kentucky, with a portion of the cigarette tax going for a specific program such as the health and tobacco research program, is the exception rather than the rule.

Senator FORD. I think the concern among the agricultural community and other leaders in this State has been that should tobacco be eliminated from the cash crop income of the various States—Kentucky, North Carolina, South Carolina, Georgia, Maryland, Tennessee, and Virginia—is there any commodity that would replace the tobacco industry's effect on our economy, the national economy?

Mr. MILLER. In short, Senator, no. Tobacco is a labor intensive crop. It's been noted earlier this morning. It provides about 10 times as much

[illegible]

[illegible]

[illegible]

Senator FORD. I certainly appreciate you coming and being with us this morning. Your testimony is very important to us. Mr. Miller, with your background and your experience and your expertise, and we look forward to working with you and receiving your additional information, and you will be receiving some requests from us I'm sure in the near future. Thank you very much.

Mr. MILLER. Thank you.

Senator FORD. The next witness will be Jake Graves, the president of the Second National Bank & Trust Co. here in Lexington. Not only is he a banker, but he's a farmer and he has a great deal of interest in what we're doing here today. Mr. Graves, we are delighted to have you with us today. We are delighted to see you this morning and we look forward to your testimony.

STATEMENT OF JAKE GRAVES III, PRESIDENT, SECOND NATIONAL BANK & TRUST CO., LEXINGTON, KY.

Mr. GRAVES. Thank you, Senator.

I will let the written statement stand, unless you have questions. It's brief and short.

You did ask me to respond to the economic impact and I did respond in that letter.

As I read the bill it's to create programs designed to promote health through taxation that deters the use of various products. I think several men have already pointed out this morning that if our learned men in higher places have an idea of what's good for our health, then I wonder if the sugar growers and the salt producers in Louisiana and the fat products producers won't be alarmed that the next one up will be we'll tax the fat content; we'll tax the salt content; we'll tax the sugar content—all in the guise of what's good for my health.

I think we can get a lot of help from a lot of industries to stop this approach to deterring the use of a product by punitive taxation. I don't have a lot to say other than that. It would seem to me that we are opening a Pandora's box of a system of defining what's good for the population.

Senator FORD. Let me ask you this question as it relates to the financial community if I may. How important is tobacco in the lending of money to the farmer?

Mr. GRAVES. Well, as my statement reflects, we give a capital value. This is a 45-year-old program—well, it goes much farther back, tobacco is the oldest export commodity in America; but the recent Government and farmer production control goes back 45 years. The franchise right to produce this product has a capitalized value of about $3 a pound, which we use in a screening and estimating of the value of a farm. Likewise, it is about 30 to 40 percent of their farm sales income which we use as a cash flow to retire debts. So a high percentage of our farm mortgages and our farm operating notes—money borrowed to produce—has been and will be repaid by the product of tobacco.

Senator FORD. You gave a percentage there. What would happen to the mortgage structure of the farming communities if tobacco production was eliminated?

Mr. GRAVES. It would be a hell of a dastardly blow. I would say it would be chaotic. I think Kentuckians are resourceful. You take the

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

[illegible] I'm sure what figure he uses today.

Senator Ford. Is that basically the assessment [illegible] $5,000?

Mr. Graves. It used to be $5,000. When I served on one of [illegible] committees that was the value he told me he had fixed on the [illegible] ment. Now that we have poundage I think it's a dollar per pound [illegible]

Senator Ford. So tobacco finds its tentacles in every facet of the community!

Mr. Graves. Amen. It's part of the fabric of this Nation and this State.

Senator Ford. Mr. Graves, you have been a very valuable witness this morning. Have you left a copy of your statement?

Mr. Graves. Yes, sir.

Senator FORD. Fine. That's fine, and we do appreciate it.

Mr. GRAVES. Thank you.

[The statement follows:]

STATEMENT OF J. H. GRAVES, PRESIDENT, SECOND NATIONAL BANK, LEXINGTON, KY.

Gentlemen, I have had the good fortune to do just about everything with tobacco except operate a cigarette manufacturing company. I have produced it, helped build and operate a loose-leaf tobacco warehouse and finance tobacco crops as a director of Second National Bank since 1945. I have served on various state and national tobacco committees and visited all the tobacco producing areas in the United States.

This is the background from which I have formed my opinions:

Tobacco: Medium of exchange, i.e., paying the preachers in Virginia in the early days.

Tobacco: The oldest (45 years old) program where the producers and the government cooperate in the production of the product.

Tobacco: Very early, the source of revenue to the various governmental, church and other organizations.

Tobacco: Kentucky farms that produce tobacco have as a part of their total capital value incorporated this Federal Franchise Right to produce tobacco; the present estimated value is $3.00 per pound. The annual income value is 30 to 40 percent of all cash farm sales income.

Most of our agricultural loans are predicated on this asset and annual cash flow value.

The economic impact of additional taxation is a subject which is very difficult to put your finger on, but the Tobacco Institute, I'm sure, has a statistical value showing where the various states have experimented with the "goose that laid the golden egg"—TOBACCO—and continue to raise the taxes until you reach the point of diminishing returns.

In many instances we have raised taxes for schools and governments, but rarely have we had a punitive tax in the guise and excuse of the health care measure. It would seem that we have opened somewhat of a "pandora box"; that we get a few people in high places who feel that certain things are hazardous to our health, therefore will tax it out of existence, or at least tax it to the extent that it becomes punitive in nature.

The best I can recall, all taxes ever levied against tobacco have been a temporary tax for a specific purpose; and yet no tax has ever been removed.

Specifically, regarding the new proposed legislation, it seems ludicrous to me; the way I read and understand it; that after the legislation is effective it would be illegal to smoke a tobacco product, but legal to smoke a marijuana product, or any other cabbage leaf, catalpa bean or most anything else you can get to smoke. I do not understand this segregation of tobacco.

I think the Federal Government has an obligation to the property holder, to the financial institution, to the farm owners, to the farm working families and to all the business institutions that are built up around this franchise system to move slowly, walk softly and try not to destroy the goose that is laying a golden egg to the tune of some seven billion dollars a year for the various taxing authorities in our country. The economic impact is fantastic and terrific in a positive fashion today. This can easily be destroyed by promiscuous and not fully thought-out legislation.

Senator FORD. The next witness will be Dr. Milton Shuffett, vice chairman, Department of Agricultural Economics, University of Kentucky, College of Agriculture here in Lexington.

Dr. Shuffett, we are delighted to see you this morning. We appreciate you not only as a witness but for the fine help that you have given us to put this hearing on and the advice you have given us. The courtesy of the Department of Agriculture has been 101 percent. I want to say that for the record and for the public and we are delighted to have you as a witness this morning.

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Kentucky has 11 stemming and redrying facilities for processing tobacco for storage after it is sold on the looseleaf warehouse floor. These businesses hire local people and represent an important source of seasonal employment and income for the area.

In addition to sales warehouses and redrying facilities, tobacco marketing involves considerable economic activity in the process of transporting tobacco crops from the farms to warehouse floors, from warehouses to stemming and redrying facilities, and from redryers to storage facilities where the tobacco is aged until it is ready for use in manufacturing.

It is estimated that more than 10,000 production workers are employed in tobacco manufacturing establishments located in Kentucky.

In addition to manufacturing workers, large numbers of employees are used in the storage, merchandising, and distribution of tobacco products after they are manufactured. Many such firms are located in Kentucky because of tobacco production and the manufacturing industry in the State.

The manufacturing industry generates business in other segments of the economy through the purchase of such supplies as cellophane, aluminum foil, printed packages, and cartons and paper. It is estimated that in the Nation, more than 1.5 million businesses share in the tobacco trade and in supplying equipment, transportation, advertising, merchandising, and services.

An important part of Kentucky's tax revenue comes from tobacco products and the tobacco industry. In fiscal year 1976–77, Kentucky collected $22.2 million in excise taxes from sales of tobacco products. This is in addition to sales taxes and State and local property taxes collected on farmland with higher value due to tobacco allotments and on warehouses, manufacturing plants, and storage warehouses and facilities.

Tobacco allotments have an important impact on farmland values throughout the State. It is estimated that the average value of a burley tobacco quota is approximately $3 per pound—farms with quotas sell for an additional $3 for each pound of burely allotment. Kentucky's 423 million pounds of burley quota in 1977 had the effect of increasing farmland values in the State by approximately $1.2 billion—an important contributor to land values and assessment for local tax purposes.

The enactment and implementing of S. 3118 would undoubtedly reduce the consumption of tobacco and the needs for burley and other types of cigarette tobacco. Studies attempting to measure the demand elasticity at the retail level for cigarettes have generally concluded that the demand elasticity is in the range of −0.5 to −0.7. The quantity of cigarettes consumed responds to price change by from 0.5 to 0.7 as much as the price change. All such estimates have been made at existing prices and quantities at the time the estimates were made. It is known that demand elasticities tend to be greater—quantities respond more to price changes at higher price levels. The unit tax rates proposed by S. 3118 would increase prices from 5 cents per package for the lowest tar-nicotine cigarettes to 50 cents per package for high tar-nicotine levels. Such taxes would raise cigarette prices to levels of greater demand elasticities and result in substantial reductions in

leaf tobacco needs and would have a severe impact on the economy of Kentucky, other tobacco-producing States, and to the Nation.

If consumption patterns by tar-nicotine levels were such that the average tax increased by 25 cents per package—about a 50-percent price increase for cigarettes—the effect would be to reduce consumption by about 30 percent. The provisions of S. 3118 designed to prohibit smoking in open areas of Federal facilities, to segregate smokers from nonsmokers, to change labeling requirements, and other programs to deter smoking would further decrease the consumption of cigarettes and the need for leaf tobacco. I would estimate that tobacco requirements would decline by one-third with the following direct impacts on the agricultural economy of Kentucky.

(1) Burley production would be reduced by 140 million pounds with $175 million less in cash farm income at present prices.

(2) Farmland values would decline by approximately $400 million.

(3) Employment for the equivalent of 13,000 jobs by family members and hired labor would be lost.

Nonagricultural segments of the economy would also suffer as a result of this bill.

In summary, agriculture, agribusiness, and State and local governments are heavily dependent on tobacco production, marketing, manufacturing, and distribution as a source of employment, income, and tax revenue. The reduction in tobacco needs resulting from S. 3118 would have a drastic impact on land values and on the rural economy of Kentucky and all other tobacco producing States. The impact would carry over to decreased economic activity in the nonfarm sectors of agribusiness, finance, employment, wholesale and retail trade, and tax revenues at all levels of government.

Mr. Chairman, this concludes my statement and if you have any questions I will be happy to respond.

Senator FORD. Thank you very much, Dr. Shuffett. Your statement almost eliminates questions because it's so thorough and so complete.

One thing I believe that you have brought out is that if the tax is increased by 25 cents, which would be approximately a 50-percent increase, it would reduce 30 percent of the purchases or would reduce the need of burley tobacco by 30 percent.

Mr. SHUFFETT. Yes, sir. This is my estimate. I think cigarette demand does respond to price. I think the price is relative to any commodity and if we were to come out at about an average on this tax of 25 cents per pack in low and high nicotine level, that the average price increase would be 25 cents per package. This I would estimate would result in a reduction of 30 to 35 percent in cigarette consumption and in the need for leaf tobacco.

Senator FORD. Now in reading your statement—and you follow up that burley production would be reduced by 140 million pounds—now you're just relating to Kentucky alone?

Mr. SHUFFETT. Yes, sir.

Senator FORD. That would be a loss of $175 million in cash revenue. That's just to the farmer?

Mr. SHUFFETT. That's right.

Senator FORD. That's the farming community only?

Mr. SHUFFETT. Yes.

Senator FORD. As both you and Jake Graves have stated, the value of the land would decline because of the $3 per pound factor which increases that value so that would reduce the income to the community as it relates to the assessment of the land. As a result you would have the equivalent reduction of almost 13,000 jobs by family members and hired labor.

So really you're beginning at the tip of the iceberg if you take $175 million out of the economy. It really has a rippling effect, doesn't it?

Mr. SHUFFETT. Yes, sir. It has a proportional effect throughout all agribusiness and assessment values for taxation and support of local services and the manufacturing industry totally, across the board.

Senator FORD. When you get into the loss of income for the equivalent of 13,000 jobs by family members and hired labor, you haven't extended yourself over into the manufacturing of the products of tobacco, have you?

Mr. SHUFFETT. No, sir. These are totally farm-related things.

Senator FORD. So you could say without fear of contradiction that there are going to be some people laid off or in the unemployment line as a result of the reduction of 30 percent?

Mr. SHUFFETT. Certainly, and carry it throughout the system.

Senator FORD. I want to make these points and we may be repeating ourselves, but I think we are beginning to find a thread of the fabric that's very important as it relates to the economic structure of this crop.

Let me get back to a question I have been asking each of the witnesses. What would be an alternative source of revenue if tobacco was taken away or declined 30 to 50 percent?

Mr. SHUFFETT. Well, Senator Ford, there's no alternative throughout the tobacco industry, in my opinion, for tobacco. The sources used in tobacco production are such that it takes a little land and a lot of labor, and in agriculture to replace tobacco with another enterprise that would earn the equivalent amount of money and have the same impact on land values and on farm equipment, there is no alternative.

Senator FORD. Let me ask a question that has not been asked yet or related to, and I think it should. Kentucky has become an important grain and soybean producing State. Why can't tobacco producers switch to one of these crops and maintain their present level of income?

Mr. SHUFFETT. I think it goes back to the basic structure of our agriculture in Kentucky. We are a State of small family farms. The average farm in the State has 141 acres. It has much less crop land and in many areas of the State the land is not suitable in terms of the topography, terrain, farm sizes, to economically compete in grain production.

In west Kentucky where we have larger farms, more acreage assembled in larger units, then we do have some opportunities and we have seen development in grain and soybeans, but for the major part of the State this is not a viable alternative.

Senator FORD. Cucumbers or something like that wouldn't replace tobacco in its income?

Mr. SHUFFETT. No, sir. There are some opportunities. Mr. Miller commented on this, on some of the ways for crops where value would

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Health Institute at the University of Kentucky has an annual income of $3.7 million devoted to the employment of outstanding professional research scientists headed by Dr. John Wyatt, to carry on research in the field of tobacco and health.

In the field of taxation, we feel that tobacco is carrying more than its just share of taxation. Over $6 billion pour into the coffers of governmental agencies, some of which Mr. Califano is using to destroy the industry that helps sustain him in his missionary work. In fact, revenue from taxation amounts to over three times what the farmer receives for his crop. Tobacco is in no way subsidized by the Government. On the contrary, tobacco subsidizes the Government.

The question of prohibition of smoking in Federal public places, we feel, is just another attempt to suffocate a legitimate industry that many thousands of farmers and others depend on for their livelihood.

The Burley Tobacco Growers Cooperative Association has operated for 37 years very successfully. It has offered price protection to the farmers without loss to the Government. The total figures of the cooperative's operations through the first 35 years of its operations show that, in round figures: Total funds borrowed from Commodity Credit Corporation, $1.36 billion; total interest paid to CCC, $119.4 million: net gain paid to growers, $16.1 million; total of green tobacco received, 1.650 billion pounds.

This certainly is an enviable record.

The end of price supports would create a catastrophe in 22 States that grow tobacco. Many thousands of small farmers would be forced off the land into the cities, thus swelling the welfare roll.

So, gentlemen, we think it is time to call a halt on all the adverse criticism of tobacco. We plead for time for research to find out what, if anything, is in the use of tobacco that is detrimental to health. We would urge the Congress to denounce and stop the unwarranted usurpation of the rights of people in legitimate enterprises by zealots in Government who speak from emotion rather than fact.

In conclusion, gentlemen, we reiterate, please quite down and let research find the answers. It just may be that smoking is not the culprit. It would be calamitous to destroy a basic industry before the facts were known.

Senator FORD. Thank you, Mr. McDaniel. That's an excellent statement.

Bill Balden is next. Bill, do you have a copy of your statement?

Mr. BALDEN. I have one copy.

Senator FORD. OK. You may proceed.

STATEMENT OF WILLIAM H. BALDEN, KENTUCKY FARM BUREAU

Mr. BALDEN. Senator Ford, we, as Kentucky farmers, certainly appreciate your interest in us here in Kentucky, and I'm sure the farmers throughout the United States would say the same to you.

The official statement of the Kentucky Farm Bureau will be given tomorrow in Bowling Green so I would like to make a brief statement as a Kentucky farmer to you this morning.

My name is William Balden. I'm a full-time farmer and a person very much interested in tobacco.

I resent very strongly the motives put forth in S. 3118. This country was founded over 200 years ago because people wanted individual freedom. The majority of people still want this. Many of us in years past have gone to war to protect these freedoms. Now there are a few men who think they know what is best for everybody. They intend to protect us from ourselves.

Tobacco is most important to all Kentucky farmers as we derive better than 30 percent of our income from this source. The people who work for us depend on it for over 50 percent of their income. If it was not for tobacco we would probably not need any outside help on the farm. So unemployment would prevail in Kentucky. Many of these people would be on welfare, depending on the Government for their support.

If Senator Kennedy is so anxious to do something about pollution, why doesn't he start with the automobile which puts out many more noxious fumes than does cigarettes. He won't do this because he drives an automobile.

We, as citizens of this country, pay our taxes and support our Government. It is my feeling that we should have free access to all public facilities, regardless of whether we are a smoker or a nonsmoker. Thank you very much.

Senator FORD. Thank you very much, Bill.

Jack Griffith is next, president of the Council for Burley Tobacco.

STATEMENT OF JACK GRIFFITH, PRESIDENT, COUNCIL FOR BURLEY TOBACCO, LEXINGTON, KY.

Mr. GRIFFITH. Senator Ford, members of the committee, ladies and gentlemen: Thank you for giving us the opportunity to appear before you today to present our views on the impact of S. 3118, the Smoking Deterrence Act of 1978.

The Council for Burley Tobacco is a unity trade association whose membership includes those organizations, associations, and representative individuals with a direct and affected interest in the production and marketing of burley tobacco as a viable agricultural industry with far-reaching economic and social impact.

It should be noted that representatives of the member organizations and associations of the council will testify on behalf of those organizations. The council will confine its testimony to a general statement reflecting the sentiments of the great mass of burley tobacco producers and their seupport and allied industries.

It is immediately and strikingly apparent that the proposed legislation in question, S. 3118, would have a devastating effect on the tobacco economy and the tax revenues based upon it.

S. 3118 represents another of the constant attacks upon the tobacco industry which show a great lack of understanding of the economic and social fabric of the tobacco economy which has existed for hundreds of years. This legislation would rip that fabric to shreds.

S. 3118 also appears to relegate the American who is a tobacco smoker to a subclass of citizen, denying equal access to the facilities of a government of, by and for all of the people.

We doubt that this would be the intent of an American Congress.

The proposed act refers only to tobacco smoking. Is it to be assumed that the smoking, or use, of other substances would not be affected!

In analysis, S. 3118 appears to be punitive legislation against tobacco—and tobacco alone.

Tobacco production, manufacturing and the use of tobacco products are legal.

For the last 25 years or more, the relationship of tobacco to health has been a continually running and largely unresolved debate. It is reasonable to say that the general public, and certainly the smoking public, has had totally adequate notice of any hazards that might exist in the relationship of smoking to an individual's health situation.

We will not dwell here on the tobacco and health problem. But we do ask the committee to consider the research and technology which the tobacco industry has advanced in its continuing efforts to clarify and resolve the situation. In Kentucky, we have been concerned enough about the problem to establish the Tobacco and Health Research Institute facility.

It cannot be said that we would be indifferent to the health situation—or that economics would supercede the general health.

But reality must be put in perspective.

The tobacco economy is very real and vital to Kentuckians—as well as to other tobacco areas—as it has been for centuries.

Historically—and currently—the economic impact of the production and marketing of burley tobacco is so deeply woven into the economy of Kentucky that anything which would disrupt its stability is a danger to the overall welfare of Kentuckians of all walks of life.

The $500 million annual income to Kentucky farmers alone translates into a $2.5 billion economic flow each year on the accepted premise that such an agricultural dollar multiplies 5 times in the economy before it dissipates.

There is involved the labor-use equivalent of 39,000 full-time jobs. More than 6,000 other workers also are employed on a seasonal basis in 26 stemming and redrying facilities.

Employment in tobacco manufacturing provides jobs for thousands of other workers in Kentucky.

There are more than 200 auction warehouses with an estimated $60 million investment in local communities.

More than $22 million are collected by Kentucky annually in excise taxes on tobacco products. Production quotas add to land values and improve local revenue through taxation.

We are sure these facts and statistics will be repeated many times during the committee's inquiry into the economic impact of S. 3118.

But we would earnestly ask that they stand as not mere facts and figures, but that the committee carefully weigh them as realities in a complex, wide-ranging and deeply human social and economic environment.

Any substantial disruption of tobacco production in Kentucky could not be offset by other agricultural production, and we would be hard-put to overcome the consequences to the economic and social well-being of Kentuckians. Poverty, displacement and depression would result in many instances.

We respectfully petition the committee to turn aside such efforts as S. 3118 as a manifestly unfair and unrealistic effort, and urge the Congress instead to appraise the realities of the tobacco situation apart from the clamor of the detractors who cannot appreciate our position because they simply will not recognize it—or try to understand it.

Thank you.

Senator FORD. Thank you very much.

Ray, we have your testimony.

STATEMENT OF RAY MACKEY, PRESIDENT, BURLEY FARMERS ADVISORY COUNCIL, AND FIRST VICE PRESIDENT, KENTUCKY FARM BUREAU, ELIZABETHTOWN, KY.

Mr. MACKEY. Senator Ford, members of the committee, and ladies and gentlemen: I am Ray Mackey, president of the Burley Farmers Advisory Council. We are a burley tobacco producer organization representing counties of central Kentucky for a major portion of Kentucky's 400 million pounds of burley tobacco that's produced.

Thank you for the opportunity to voice our extreme opposition to S. 3118. This bill, if enacted, would give Federal administrators a directive to enforce segregation of those who smoke tobacco from those who do not smoke tobacco in any Federal facility.

Other sections of the bill make it crystal clear that its underlying purpose is to eliminate the smoking of tobacco as soon as possible.

In addition to the specific restrictions contained in the bill, its enactment will give encouragement to those who are already determined to say where and when you may or may not smoke.

Last week I had lunch in a restaurant where you had to sit at a particular table if you wanted to smoke. I boarded a plane where smokers were told to sit in the back section of the plane. Last night I checked into a well-known downtown hotel and was asked if I wanted to sleep on a floor where people did not smoke. I objected to the whole idea. At the price they were charging, I really expected to sleep in a bed instead of on the floor, and what other guests did in their rooms was none of my business.

If smoking is reduced or eliminated, it will have a tremendous impact on those of us who produce and market burley tobacco in Kentucky. Our quota or our right as individual farmers to grow a portion of the 400-million-pound Kentucky crop is important to us. Whenever a farm is offered for sale the tobacco quota becomes one of the main attractions. The growing and marketing of this remarkable crop occupies almost half our working time and produces more than one-third of our farm income, while occupying less than 5 percent of our farmland.

This means that the other 95 percent of our farmland can be used for producing corn, wheat, soybeans, fruit, vegetables, meat, and milk.

Several attempts have been made over the years to find a crop adaptable to Kentucky which will give farmers a similar return for their labor and investment. No other legal crop even approaches that of burley tobacco. It is a crop that uses all the available family labor. When additional hired labor is costing $5 or more per hour, this means that family labor is earning $5 per hour without ever leaving the farm.

Burley tobacco continues to make a major contribution toward paying the taxes on the farm, the insurance on the buildings, interest, and payments on the mortgage. In addition, it pays for shoes for growing farm boys and girls, books, fees, and school lunches from the first grade to graduation and tuition, room and board for those who go to college where farm boys and girls who have learned the value of hard work and some commonsense as well can further develop their minds and skills and thereby make a significant contribution to a better America in the fields of science, medicine, economics, agriculture, or whatever field they choose.

In summary, the value of tobacco to Kentucky farmers is beyond measure. Rejection of S. 3118 by your committee would protect this value in which all Kentuckians have a share. Thank you.

Senator FORD. Thank you very much, Ray. All four of you gentlemen have done an excellent job in making your point as it relates to the loss of the crop of tobacco. I don't believe I have any questions because the statements have been very factual and I think you have made your points adequately. Can any one of you think of something that you would like to put on the record at this time?

I think what we're getting down to is that we have an economic situation that if tobacco is eliminated or even partially eliminated—Dr. Shuffett said a few moments ago if it's just reduced 30 percent, how many hundreds of billions of dollars that rippling effect would have and what we have to do to try and make it up. There is that possibility but no one has ever come up with any substitute, a substitute based on the amount of income and the small use of land that you all remarked about. You have 95 percent left to do other things with that is so important, yet tobacco is—I guess I could use the term—the backbone as it relates to the cash ability to do these other things. Hopefully, your testimony today will be vitally important in getting over the economic aspects to those who are attempting to eliminate tobacco from the marketplace.

This concludes our hearings of this morning. We are now going to have a break for lunch and we will come back at 1 o'clock and we will begin with a panel of tobacco producers and tobacco warehousemen, tobacco dealers, the chamber of commerce, banks and agribusiness panels this afternoon.

AFTERNOON SESSION

Senator FORD. Good afternoon, ladies and gentlemen. It's a pleasure to see all of you. We had a good morning, a lot of good testimony and we expect additional testimony that will be as profitable to the committee as the morning testimony was.

As I indicated before we recessed for lunch, we were going to put individuals who have related representation here this morning, such as producers, the warehousemen, dealers, chamber of commerce, bank panel, and agribusiness. The first panel this afternoon will be the tobacco producers panel and we would like to have Henry West, Route 1, Paint Lick; Robert Hornback, Route 4, Shelbyville; and Jim Thompson, Route 5, Paris.

Jim, did they get out to see you yesterday?

Mr. THOMPSON. Yes, sir.

Senator FORD. They were saying how pleased they were at how articulate you were about the problems. So I'm glad they were able to see you. Let's start from my left and your right and we'll have each of you make your statement and there may be questions we will want to ask you individually. So Jim Thompson, we'll start with you first.

STATEMENT OF JIM THOMPSON, PARIS, KY.

Mr. THOMPSON. Gentlemen and ladies, my name is Jim Thompson. I am a 27-year-old farmer from Bourbon County. I am the fourth generation of my family to live and work on our farm. I am also the fourth generation of my family to depend on tobacco as a primary source of income.

My family has been involved deeply with tobacco all during this time. One of my grandfathers fought for and helped establish the burley program as we now know it. My other grandfather was an auctioneer for many years. My father also sold tobacco fertilizer for a while. As you can see, we have more than a passing interest in the tobacco industry.

As a young central Kentucky farmer, my very existence is dependent on tobacco. Tobacco has traditionally been our big cash crop. We use tobacco as a basis for our entire farming operation. Without exaggeration tobacco finances all of our other farming operations. In this area tobacco is used as security for loans to buy equipment. A bank will loan money to a young farmer with no assets in order to buy equipment with tobacco revenue as the only form of security. Some of this same equipment can be used in other less lucrative agricultural products such as corn.

Consequently, you are legislating this individual out of a job. With 83 percent of the Kentucky farmers producing tobacco the bill will affect a great number of people in this area.

Considering the fact that we use tobacco as a primary source of income and loan security, we are in a unique situation. Ask yourself, "What alternate crop could replace this source of income?" "What specifications must this alternate product adapt to be suitable to this area?"

This new crop must be grown on a small amount of land, yet yield a large income. This income must be constant enough for the banks to consider it secure enough to loan money. It must adapt to our climate and conditions. A knowledgeable source of labor must be available to insure high yield. It would also be helpful to have someone with four generations of accumulated experience to produce this product. Is such a crop in existence? I submit—no.

Up to now I have dealt with what the farmer has to lose by this legislation. Now I would like for you to consider what the nation gains or loses by this legislation. The primary penalty for the State and Nation would be greater unemployment. A large percentage of the 160,000 tobacco farmers in this State, most of whom are over 50 years of age, are not qualified for other work either by choice or necessity. A great number of these people raise tobacco because that is what they want to do and know how to do. They would not change regardless of incentives. This legislation also encourages black marketing or bootlegging, as we call it, by creating a market for bogus tax stamps

or misrepresentation of nicotine and tar levels. We collectively stand to lose $14 million in State tax revenue, not to mention Federal tax revenue. "We" also stand to lose a great deal of property tax revenue because without a tobacco base, land values and property assessments would go, diminishing the borrowing power of the farmer. We also lose that intangible thing called pride in our job, not to mention quality of our smoking product. And last, but not least, some of us will lose our farms.

Serious other questions are raised by this legislation, and as a person who hopes to live for another 60 years in this area I would like to pursue these legal aspects. I submit that this legislation, much like prohibition, is legislating morality. Gentlemen, you have seen and we still feel the effects of that legislation, and one would have to suspect the constitutionality of this legislation. To compound the morality aspect with selective enforcement—that is, only Federal buildings and employees affected—moves juris prudence back 120 years. A smoker is not a second class citizen, and as a smoker I refuse to be treated as such.

As I have stated, we as farmers have nothing to gain and much to lose by this legislation. This bill S. 3118, if passed, will set serious legal precedents with even more serious ramifications. However, if this bill would do for my family what prohibition did for the family of one of the draftees of this bill, I might change my mind. Thank you.

Senator FORD. Jim, I think you worked hard on your statement and it was very good.

STATEMENT OF ROBERT HORNBACK, SHELBYVILLE, KY.

Mr. HORNBACK. Mr. Chairman and members of the committee, I am Stephen R. Hornback, Route 4, Shelbyville, Ky. I appreciate the opportunity to appear before you and to express my views on S. 3118 and its effect on the economy.

My family and I operate a 290-acre farm in Shelby County. We have a 15,000-pound burley tobacco quota which accounts for most of the income from our family operation.

I have read the proposed legislation contained in S. 3118 and I am convinced that it is designed for no other purpose than to lead to the discontinued use of tobacco in this country and the total destruction of the tobacco industry. The harmful effects of this legislation would not only apply to the manufacturing and marketing institutions but would include every small tobacco farmer in this country. It would result in financial ruin for my family and me, as well as all my neighbors.

I reside in Shelby County, which is located in north central Kentucky. Like most counties in that area, the land is rolling, making it suitable for tobacco, livestock and dairy. It is not generally suitable for the production of large quantities of wheat, soybeans, corn or any of the other major commodities. Tobacco is our major income producing commodity. In fact, our economy depends on tobacco.

In Shelby County, we produce 10,700,000 pounds of burley tobacco on 2,000 allotments. At current prices the farm income from tobacco is expected to gross more than $13 million for our county this year. Using the generally accepted rule of thumb, that money turns over five times before leaving the community in which it is generated, the production

of tobacco adds $65 million to the eeconomy in my home county. That money contributes much to the well-being of farmowners, sharecroppers, laborers, farm supply dealers, wholesalers and retailers of food and consumer goods, public employees and many others.

Shelby County, like many others, is also a major tobacco marketing center. We have 9 warehouses which sell 28 to 29 million pounds of tobacco and employ several hundred people each year, most of whom would otherwise be unemployed during the winter selling season.

Shelby County, like most of the other 118 tobacco producing counties in Kentucky, contributes much to the total economy of Kentucky. This would not be so if it were not for tobacco.

It contributes much to the tax base of the State. This also would not be so if it were not for tobacco.

The public schools in our State derive their revenue primarily from three sources—State income tax, State sales tax and local property taxes. If it were not for tobacco, income taxes would be much lower because of the greatly reduced income, sales tax receipts would drop sharply because of the reduced funds available to be spent on consumer and luxury items and property tax revenues would be greatly reduced because of lower farm values. I am told that most farm lending agencies place a value of $3 or more per pound of burley tobacco quota when appraising a farm for a loan. Based on this alone Shelby County would lose $33 million of tax base on the farms in the county, not to speak of the loss of property taxes paid by tobacco related businesses such as warehouses and others. If the sponsors of this legislation think this is going to be easy to overcome, then I challenge them to suggest a satisfactory alternative source of revenue in order that our schools may survive.

You in Congress have the power to destroy America's tobacco industry and bring financial ruin to all who are involved with it. I ask you, how do you plan to replace the Federal, State and local tobacco tax revenue which currently amounts to five times as much as the farmers receive? What do you plan to do with the bankrupt farmowners and their families and the displaced sharecroppers and their families?

What will become of the small businessmen whose sales depend largely on the tobacco economy? When you harm or destroy the tobacco industry, you are not dealing with an inanimate object, but you are playing with the lives and welfare of millions of Americans, most of whom are contribuiting a much larger share to the total economy of this country than the average person.

Members of this committee, we who produce tobacco recognize we have problems. Most of the problems I believe are a result of inadequate research, and misinformation. What we need is understanding, patience and assistance, not misleading propaganda and misguided reaction.

I therefore urge you not to pass S. 3118 or any other similar legislation which would only compound our problem. Instead, I request that you join with us and help find solutions to our problems as they arise. Thank you.

Senator FORD. Thank you very much for an excellent statement.

Henry, do you want to take that microphone now and we'll to your statement.

STATEMENT OF HENRY WEST, PAINT LICK, KY.

Mr. WEST. Mr. Chairman, I'm Henry West. I'm from Paint Lick, Garrard County, Kentucky, and I'm a farmer.

S. 3118, the Smoking Deterrence Act of 1978 claims to create programs designed to promote health.

I am certainly not opposed to the promotion of health. I am opposed to the method of promoting health as is described in this bill.

Tobacco is frequently portrayed as the villain. I would like to point out to you today some of the positive aspects of tobacco. I am a tobacco producer. Tobacco constitutes almost 60 percent of my gross income. Like myself, there are over a half million farm families directly and indirectly involved in producing tobacco in the United States. Tobacco is unique because it is so adaptable to the small family farm. No other crop can produce the income per acre in this area that tobacco does.

Tobacco is the major cash crop in Kentucky resulting in over $600 million in income annually to the Kentucky farmer. Tobacco is the fifth largest cash crop in the United States, worth more than $2.3 billion in 1977 to the farmer. While the farmer was getting $2.3 billion for his tobacco, Federal, State and local governments were collecting over $6 billion in fiscal year 1977 in taxes on tobacco products. During the past 44 years the Federal Government has collected over $68 billion in taxes on tobacco products. State governments have collected an additional $46 billion.

Kentucky collects over $2.2 million in excise taxes annually on tobacco. But, in addition, it is estimated that in Kentucky alone, farm land values are increased by $1.2 billion because of tobacco quotas, resulting in $4 to $5 million per year in taxes to support local governments in Kentucky.

Garrard County, in which I live, has a population of about 9,500. Out of the labor force of 4,200, about 850 are agricultural. Garrard County has 1,372 tobacco allotments and a total quota of almost 7½ million pounds. Income from tobacco amounts to about $9 million annually. This $9 million is about 20 percent of the total personal income annually in Garrard County. Tobacco increases the per capita income in Garrard County by almost $1,000.

I have tried to impress upon you how vitally important tobacco is, not only to Kentucky, but all tobacco producing States. Kentucky's economy is dependent upon the tobacco income. To remove $600 million of personal income from Kentucky would destroy the economy. And to add more tax on tobacco, which is already over-taxed, would not only be unjust, but would threaten the tobacco industry.

I would compare tobacco to the goose that laid the golden egg. Tobacco being the goose. Government taxes on tobacco being the golden egg. Taxes are choking the tobacco industry now and the farmer is footing the bill. Additional taxes would cut even deeper into the farmer's pocket.

Thank you.

Senator FORD. Thank you, Henry. I appreciate your statement. I think each of you have drawn a very, very clear picture of individual counties and the turnover of the money in that county and how much it means. Take a smaller county such as Garrard County with a population of about 9,500 and $7.5 million income—almost a fourth of the

employment in that county is tobacco related And. Jim. I think you made some very good points You have raised a new one about the constitutionality right here I think. I believe you said it would set jurisprudence back 120 years. And the lady to my left is going to be sworn in as one of the newest lawyers of Kentucky and I'm going to ask her if it really has been. So I want to discuss that.

Let's talk about Shelby County. I think you're the average size county in Kentucky, whereas Fayette County is a little larger and Garrard is a little smaller. Let's take Shelby.

How many different operations in Shelby County are dependent on the farmer and basically on tobacco? Can you name one that isn't really? Let's go over the community and the small business people in your community. Tobacco plays a great part in their livelihood.

Mr. HORNBACK. The grocery stores, retail merchants are very dependent upon tobacco, especially when it's about time for markets to open and, of course, our fertilizer dealers. We use large quantities of fertilizers on tobacco. And there's just not many local people that are not involved.

Senator FORD. Trucks, tractors—there's hardly anything you can name—gasoline distributors—just about everybody in your community—I guess in all three communities.

Mr. HORNBACK. Of course, this time of year the supply of labor for people that are maybe unable to do heavy manual labor that can help with tobacco and so on—this provides additional income for them.

Senator FORD. I think Congressman Breckinridge made a statement this morning that if the Christmas season came in Kentucky without tobacco money, there wouldn't be much need to go to the market, in the spring in Northeastern cities—and he named Boston and New York—to buy wares for the winter. There wouldn't be much need of going up there, and probably the impact or the rippling effect would be felt there. Maybe not quite as much as here, but it certainly would be felt because we wouldn't be buying from them and the employment wouldn't be as good and they wouldn't be selling their products.

Mr. HORNBACK. Yes, sir. The automobile agencies, they usually stock up pretty well when the tobacco market is open because they hope to increase their volume in cars, new and used.

Senator FORD. We'll have a panel of bankers here shortly and we have already had some testimony that tobacco is the backbone of the farm itself as it relates to income and the ability to borrow money. I think one thread that we have seen throughout the testimony so far today is that in making the appraisal of a farm, it used to be so many dollars per acre and now it's about $3 per pound, and that increases the value of the farm. I believe one banker testified this morning that if he had identical pieces of land, one with an allotment and one without an allotment, the one with an allotment would bring a lot more money because of the $3 per pound.

Then the revenue as it relates to the county and city I believe I'm rehashing a little bit but I think it pinpoints each of your statements, that if a 25 cents per pack tax was placed on a pack of cigarettes, that that would reduce the production of tobacco approximately 30 percent. That would mean roughly $175 million loss of income to the farming community. That's just the farmer himself, and then the loss of

employment and other things, and that doesn't get into the other industrial operations of producing the cigarettes.

One of you made a statement I thought was right good. It may have been you, Henry; that out of a $2.3 billion income for the tobacco farmers, the Federal and State governments were collecting $6 billion in fiscal year 1977 in taxes on tobacco products, and during the past 44 years the Federal Government has collected $68 billion in taxes and State governments have collected $46 billion. So governments collect more taxes by about three times roughly than what the farmer gets from income from doing all that work.

It just makes sense to me that people had better start looking at the economics of tobacco rather than the emotions of it. Do any of you have anything you want to add to your statements that you have thought about since you have been sitting there?

Mr. HORNBACK. I might say, speaking as to how it affects the local economy and the banks and so on, most people kind of live or exist off their other income from the farm, but they look for tobacco to pay their bills.

Mr. THOMPSON. Another thing I would like for you to consider, kind of along the same line, tobacco is what allows us to raise our corn and our grain so cheap. This year we are essentially raising corn for free. Well, we damned sure couldn't do that without tobacco to back it up.

And also, I have heard of all the research going on with tobacco and it's an excellent source of protein in the future. Well, if we don't produce tobacco, we definitely can't pursue that line of research.

Senator FORD. Well, we were talking about that and I made a mistake this morning and I want to clarify that. There is more research in protein being done here at the University of Kentucky than other universities and I made mention of fraction-1 which I got educated on right well at lunch as to the work being done here at the university, and I not only admit publicly but I apologize publicly that I didn't give the University of Kentucky adequate recognition for what they are doing in protein research. And one thing I learned too is if you raise tobacco for protein you don't raise it for cigarettes. So it has two different connotations.

I thank all three of you this afternoon and I want to make one other point, too—that I'm on your side. That's the reason I'm here. I'm on your side. There are a few others that are after us, but I'm on your side.

Thank you all very much and I appreciate it and I guarantee you that your testimony will be listened to and scrutinized very closely in Washington. Thank you again.

The next witness is representing the tobacco warehousing, Mr. Albert Clay, chairman of the board, Burley Auction Warehouse Association of Mount Sterling, Ky. Albert, if you want to read your testimony or if you want to hit some high spots, do whichever you would prefer.

STATEMENT OF ALBERT G. CLAY, CHAIRMAN OF THE BOARD, BURLEY AUCTION WAREHOUSE ASSOCIATION, MOUNT STERLING, KY.

Mr. CLAY. I'll try to make it fast because I know you have a lot of business.

Senator FORD. We are here to listen.

Mr. CLAY. My name is Albert Clay. I am chairman of the board of Burley Auction Warehouse Association, a trade association representing auction warehouses in 8 States comprising 87 warehouses or 8 markets. In addition, I serve as a director of the Council for Tobacco Research, New York City, past president, director, and secretary of the National Tobacco Tax Council, a member of the Governor of Kentucky's agricultural advisory committee, director of the Kentucky Tobacco and Health Institute, member of the Agriculture Policy Advisory Committee of Trade Negotiations to Ambassador Strauss and Secretary Robert Bergland, and vice chairman of the University of Kentucky board of trustees representing the agriculture interests of our Commonwealth. Also, I am testifying as a tobacco warehouseman and a grower of burley tobacco.

I would like to commend Senator Ford and the Consumer Subcommittee of the Senate Committee on Commerce, Science, and Transportation for holding this hearing to consider S. 3118, the Smoking Deterrence Act of 1978.

May I begin by saying that for over 200 years burley tobacco has been an economic lifeline to Kentucky. Beginning in 1779 when Kentucky was part of Virginia, farmers shipped over 25,000 pounds of leaf to New Orleans.

Although times have changed, the importance of tobacco to Kentucky is now greater than ever. We rank the highest of any State as to the percentage of cash receipts from tobacco to total farm marketings. It is not only our largest cash crop, but this year's crop will contribute over $[illegible] million to our economy. This comes from 179,000 acres, 14[illegible] allotments and over 120,000 tobacco farms. Thus, with just the growing of the crop, you have over 120,000 farm families depending on tobacco for their livelihood. In addition, they in turn employ many thousands of Kentuckians during the growing, harvesting and marketing season.

This is just a beginning of the economic lifeline that begins on the farm. The $600 million cash receipts in less than 5 months' time is conservatively turned over four to five times throughout almost every segment of our consumer market. Merchants, bankers, local governments, or you might say, every Kentuckian shares in the economic benefits from Kentucky's golden burley.

There are the manufacturing plants, numerous processing plants, and over 200 auction warehouses that will handle this year's over 495 million pounds of the golden leaf.

All Kentuckians are proud of this important cash crop and what it means to our Commonwealth. We are also proud of the fact that it is the most successful commodity program that has been administered at the Federal level without cost to the taxpayer. There is a united effort from the Governor's office down to the county courthouses in all 120 counties to help promote and support the continuation of our successful tobacco program. Naturally, this interest extends to Washington where our distinguished Kentucky Senators, Wendell Ford and Dee Huddleston, along with our Representatives in the House are in the forefront to support and protect our interests.

S. 3118, which provides for regulations and restrictions on smoking in Federal facilities, plus a so called Health Protection Act, is a perfect example of a bureaucratic attempt by the do gooders and social reformers of this country to destroy an industry that p[illegible]v[illegible] for

nishes a livelihood for over 750,000 farm families, but produces over $6 billion in taxes to our Federal, States and local governments.

I was privileged to be 1 of the 14 sponsors of the Tobacco Industry Research Committee created in 1954 when the health issue surfaced. In fact, I am the only living member of this 14-man group that issued a statement to cigarette smokers that appeared in every major newspaper in this country. May I quote from that statement which appears as part of my testimony, because what was said then is true today:

> Statistics purporting to link cigarette smoking with a disease could apply with equal force to any one of many other aspects of modern life. Indeed, the validity of the statistics themselves is questioned by numerous scientists.
>
> We accept an interest in people's health as a basic responsibility paramount to every other consideration in our business.
>
> We always have and always will cooperate closely with those whose task it is to safeguard the public health.
>
> For more than 300 years tobacco has given solace, relaxation, and enjoyment to mankind. At one time or another during those years critics have held it responsible for practically every disease of the human body. One by one these charges have been abandoned for lack of evidence.
>
> We are pledging aid and assistance to the research effort into all phases of tobacco use and health.

S. 3118 is not only an attempt to destroy a legitimate industry by unreasonable restrictions, but it would create another bureaucratic instrumentality that would burden our taxpayers and deprive them of their indvidual freedom.

The entire bill is another attempt to further Government intervention into private lives and personal preferences.

The health protective tax it proposes is discriminating, ridiculous, and would be impossible to enforce.

The labeling requirements are unjust, unwarranted, misleading, and inconsistent with scientific and research findings.

This important American industry and the over 1 million persons employed full-time and part-time in its production has been the victim, too long, of false accusations, damaging labels, and misleading statistics without supportive scentific evidence.

There is no more justification for this legislation than a bill that would segregate people who used a certain fragrance of hair spray or face lotion because it was objectionable to others. The presence of tobacco smoke has not been proven to be harmful to health. Let's not forget that we still live in a country where freedom of choice and preference should be as important as freedom of speech.

Senator, I thank you and your committee very much for this opportunity to present this statement.

Senator FORD. And included with your statement is a copy which will be included in the record entitled "A Frank Statement to Cigarette Smokers" from the Tobacco Industry Research Committee, and also "Burley Tobacco Growers Cooperative Association Summary of Operations, 1940 Crop Through 1975 Crop."

Mr. CLAY. That indicates, as you can see, very emphatically that the tobacco program has not cost the taxpayers any money but has paid back not only the interest but money that the association has made on the profit of the sale of tobacco through the CCC and I think this is the only commodity program that can say that.

Senator FORD. So those two items will be included in the record.
[The articles follow:]

[From the Tobacco Leaf, January 1954]

A FRANK STATEMENT TO CIGARETTE SMOKERS

(A Reprint Prepared By Burley Auction Warehouse Association)

Recent reports on experiments with mice have given wide publicity to a theory that cigarette smoking is in some way linked with lung cancer in human beings.

Although conducted by doctors of professional standing, these experiments are not regarded as conclusive in the field of cancer research. However, we do not believe that any serious medical research, even though its results are inconclusive should be disregarded or lightly dismissed.

At the same time, we feel it is in the public interest to call attention to the fact that eminent doctors and research scientists have publicly questioned the claimed significance of these experiments.

Distinguished authorities point out:

1. That medical research of recent years indicates many possible causes of lung cancer.

2. That there is no agreement among the authorities regarding what the cause is.

3. That there is no proof that cigarette smoking is one of the causes.

4. That statistics purporting to link cigarette smoking with the disease could apply with equal force to any one of many other aspects of modern life. Indeed, the validity of the statistics themselves is questioned by numerous scientists.

We accept an interest in people's health as a basic responsibility, paramount to every other consideration in our business.

We believe the products we make are not injurious to health.

We always have and always will cooperate closely with those whose task it is to safeguard the public health.

For more than 300 years tobacco has given solace, relaxation and enjoyment to mankind. At one time or another during those years critics have held it responsible for practically every disease of the human body. One by one these charges have been abandoned for lack of evidence.

Regardless of the record of the past, the fact that cigarette smoking today should even be suspected as a cause of a serious disease is a matter of deep concern to us.

Many people have asked us what we are doing to meet the public's concern aroused by the recent reports. Here is the answer:

1. We are pledging aid and assistance to the research effort into all phases of tobacco use and health. This joint financial aid will of course be in addition to what is already being contributed by individual companies.

2. For this purpose we are establishing a joint industry group consisting initially of the undersigned. This group will be known as TOBACCO INDUSTRY RESEARCH COMMITTEE.

3. In charge of the research activities of the Committee will be a scientist of unimpeachable integrity and national repute. In addition there will be an Advisory Board of scientists disinterested in the cigarette industry. A group of distinguished men from medicine, science and education will be invited to serve on this Board. These scientists will advise the Committee on its research activities.

This statement is being issued because we believe the pople are entitled to know where we stand on this matter and what we intend to do about it.

SPONSORS

The American Tobacco Company, Inc., *Paul M. Hahn, President.*
Benson & Hedges, *Joseph F. Cullman, Jr., President.*
Bright Belt Warehouse Association, *F. S. Royster, President.*
Brown & Williamson Tobacco Corporation, *Timothy V. Hartnett, President.*
Burley Auction Warehouse Association, *Albert Clay, President.*
Burley Tobacco Growers Cooperative Association, *John W. Jones, President.*
Larus & Brother Company, Inc., *W. T. Reed, Jr., President.*

P. Lorillard Company, *Herbert A. Kent, Chairman.*
Maryland Tobacco Growers Association, *Samuel C. Linton, General Manager.*
Philip Morris & Co., Ltd., Inc., *O. Parker McComas, President.*
R. J. Reynolds Tobacco Company, *E. A. Darr, President.*
Stephano Brothers, Inc., *C. S. Stephano, D'Sc., Director of Research.*
Tobacco Associates, Inc., (an organization of flue-cured tobacco growers), *J. B. Hutson, President.*
United States Tobacco Company, *J. W. Peterson, President.*

Burley Tobacco Growers Cooperative Association—summary of operations, 1940 crop through 1975 crop

Funds borrowed from CCC:	
Advances	$884,599,000
Processing, storage, grading services, etc	$97,197,000
Overhead	$9,477,000
Total	$991,273,000
Funds repaid or due to CCC:	
Sales (paid on loan)	$991,273,000
Interest and collateral fee paid	$119,391,000
Net gains distributed to members	$16,095,000
Principal owed (1974 through 1975 crops)	$25,532,000
Accrued interest and collateral fees (1974 through 1975 crops)	$3,006,000
Total owed to CCC (1974 through 1975 crops)	$28,538,000
Summary of inventory:	
Million green pounds received (1940–75 crops)	1,615.9
Million green pounds sold (1940–75 crops)	1,590.5
Current inventory million green pounds (1974–75 crop)	25.4
Value of inventory at selling price Mar. 31, 1977	$34,504,000.00

Senator FORD. I want to ask you a question or two. You come to us today—I guess I can use this term—wearing many hats in the tobacco industry, and you have a very illustrative career as it relates to the total spectrum, and I'm interested, as I know you are, in the Advisory Committee on Trade Negotiations through Bob Strauss.

Could you comment for the record on the export of tobacco and its balance of payments and how that has been affected?

Mr. CLAY. Well, as I've pointed out in the meetings that we have held, Senator, in APAC, the tobacco itself is one of the few commodities that makes a favorable trade balance through our trade negotiations. Bob Miller can back me up on this, but I think that probably almost over $1.5 billion net trade balance we contribute to a favorable trade balance in our total end of the year figure.

In burley alone, we have now reached over 100 million pounds of export of burley tobacco, which is the largest on record. But counting total products—and I think this is very important in the trade associations who are having a meeting tomorrow in Washington in APAC—to try to get down to some finality on the bottom line in whether we can reach a trade agreement—but Bob Strauss has made a statement at the beginning and I think he will stick with it, that agriculture is not going to come out the net loser in these trade negotiations because agriculture is one of the commodities in this country that has contributed to a favorable trade balance and tobacco is one of those commodities contributing about $1.5 billion.

Senator FORD. I think that's very interesting and we show about $1.5 billion net gain as it relates to the sales on our balance of payments, plus a $6 billion annual income to local, State and Federal Governments from this one crop. So we're talking about not only favorable import/export operations, but a very large contributor to the well-being of communities, States and the Federal Government.

Mr. CLAY. About five to six times what tobacco growers receive from their efforts—the Federal Government is getting about six times that.

Senator FORD. The statement was made this morning quite ironically that the tobacco pays so much into the Federal Government that it gives Joe Califano the opportunity to fight the very crop that pays his large bundle of taxes.

From the warehouse area—of course, we all know here that farmers bring their crop to market for auction in the warehouses. Some people are not familiar with tobacco. They don't understand it and that's part of our problem in trying to explain the situation to other Members of the Congress. You state that there are over 200 auction warehouses in Kentucky.

Mr. CLAY. In Kentucky, yes.

Senator FORD. How many markets are there in Kentucky, including Lexington here?

Mr. CLAY. I believe in Kentucky we have about 18 markets at the present time. Of course, some of those markets, like Lexington, have five sets of buyers; mainly three sets of buyers; and I think there are something like 18.

Senator FORD. I understood there were about 30.

Mr. CLAY. There are 30 markets; yes. I'm sorry.

Senator FORD. I didn't want 18 in the record when we had 30, and if it was 18 I wanted to leave it that way; but if it was 30 I wanted to change it.

How many people are employed in the warehouse business in Kentucky? You have your minimums and maximums I'm sure.

Mr. CLAY. Senator, I don't know. Of course, a lot of us—our season is about 3 months long, you might say, and the various markets—actually from the warehouse standpoint, I'm just judging from my own operation in size, I would have to say that out of the 30 markets you would have at least 50,000 people employed one way or another connected with those operations.

Senator FORD. I don't believe I have any other question. You have covered many of my questions in your statement.

Mr. CLAY. I have a little pamphlet here that I would like to offer into the record. I only have one. I can get more. This is entitled "There is No Tobacco Subsidy." This is put out by the Tobacco Institute and if the committee does not have that I would like to offer it.

Senator FORD. We will include that pamphlet in the record.

[The pamphlet follows:]

THERE IS NO TOBACCO SUBSIDY!

Countless tobacco critics have diagnosed "schizophrenia" in our federal government which, in one department scolds smokers and in another helps farmers who grow the leaf.

End the "tobacco sunbsidy," the argument goes, and the image of the split personality will dissolve.

In fact, there is no tobacco subsidy.

Yes, taxpayers' money is used to guarantee farmers a minimum price for their tobacco crops. And their corn crops and their rice crops and their wheat and their peanuts, and their cotton. Thirteen different commodities, altogether. (See table.)

No, the money isn't a gift. It's a loan. Repaid with interest. To be eligible a tobacco farmer must guarantee to limit his tobacco production.

How does the program work? What does it really cost? What is its effect in terms of the smoking and health controversy?

Nearly a half-century ago, the Great Depression was more than a business calamity, a stock market crash and an unemployment epidemic. Consumer purchasing power was low. Agricultural prices would not sustain farm families.

Permanent federal government "programs" to stablize many aspects of the national economy, including agriculture, emerged from the Franklin Roosevelt administration and the Congress. Tobacco was among the leading farm commodities subjected to price stabilization and production control legislation.

Tobacco is cultivated today on some 400,000 American farms. Among major crops, its dollar yield per acre is highest. It is characteristically grown on a plot of land so small that no other crop on the same plot can support a family.

Traditionally, tobacco is sold at warehouse auctions after being graded for type and quality by government-employed inspectors. The rapid "chant" of the auctioneer records bids and invites higher ones as buyers from tobacco products and leaf export companies signal their interest. (U.S. tobacco products manufacturing companies purchase all their leaf supplies; none actually grows tobacco.)

If leaf offered by a farmer is unsold at a government-pegged minimum price, and if the farmer has not exceeded his government-set production quota, he receives instead a government loan equal to the minimum price. His tobacco is taken as collateral by a cooperative funded by the government.

Tobacco is among the most imperishable of farm crops. It can be and is stored, sometimes for many years, until it can be sold under more favorable commercial market conditions.

Setting crop quotas in advance of each growing season is an important and sophisticated activity of the U.S. Department of Agriculture. Among the considerations are weather and demand forecasts, as well as inventory factors and the outlook for quality and yield.

For 44 years beginning in 1933, stabilization of the tobacco farm economy has been a public policy objective inthe U.S.

But at what cost?

In those 44 years, the arithmetic comes out this way: Loans advanced to farmers, minus interest paid on the loans, minus sales of the tobacco collateral equals a net loss of $52 million to the taxpayers. That is twelve hundredths of one percent of the cost of all farm commodity price support operations.

In a fair appraisal, one must add to this the government's annual administrative costs—for example, $5.6 million in 1977 for tobacco— chiefly for inspection and market news services. This annual expense varies downward, of course, for earlier, pre-inflation years.

$52 million, plus administrative expenses, in 44 years.

During those 44 years, purchases of tobacco products paid the U.S. Treasury more than $68 billion in excises such as the current federal tax of eight cents on each package of cigarettes. They provided state governments with an additional $46 billion.

So there is no tobacco "subsidy." Considering then the price stabilization-production control program of the government (to give it its lengthy but proper label), what are its implications for the nation's health?

Critics of the program see it as helping to make tobacco products more easily and widely available on the consumer market. In their opinion, tobacco is a detriment to the health of Americans, and therefore the program is, too. But these critics appear to ignore the essential facts:

1. The program is intended to and does keep tobacco leaf prices higher than they would be without it.

2. The program is intended to and does keep tobacco supplies lower than they would be without it.

If the Congress were to repeal the program, as these critics have suggested, considerably increased acreage could be devoted to tobacco farming. The restrictive quotas would be gone. They would be a larger tobacco supply entering the commercial market.

As Health, Education, and Welfare Secretary Joseph Califano testified at a 1978 Congressional hearing: "I do not believe that anyone smokes or doesn't smoke or decides to begin or continue or stop smoking because of the tobacco subsidy. I don't think it is in any way related to that."

He gave the program the wrong name. But he gave it an accurate analysis.

GOVERNMENT PRICE SUPPORT LOANS, 19[illegible]

[illegible]

	Year [illegible]	[illegible] "[illegible]" [illegible]
Corn	[illegible]	[illegible]
Wheat	[illegible]	[illegible]
Cotton	[illegible]	[illegible]
Sorghum	[illegible]	[illegible]
Soybeans	[illegible]	[illegible]
Tobacco	[illegible]	[illegible]
Sugar beets	[illegible]	[illegible]
Rice	[illegible]	[illegible]
Barley	[illegible]	[illegible]
Peanuts	[illegible]	[illegible]
Oats	[illegible]	[illegible]
Honey	[illegible]	[illegible]
Rye	[illegible]	[illegible]

Source: Fiscal Division, U.S. Department of Agriculture.

Senator FORD. I want to thank you again for coming to this hearing because I think it's very important for the Congress to know the importance of tobacco.

Mr. CLAY. We have heard and I have heard the statement by the press which indicated that this was a one-sided hearing. Well, Senator Kennedy held his hearings on all health related and nothing as it relates to economic well-being. So I think with the hearings we'll have today and tomorrow we might be in a position to balance the testimony so at least we will have a hearing and an equal share of the testimony when this legislation comes—and no doubt it will in the next session of Congress.

Senator FORD. Thank you very much.

I introduced two of the staff members this morning and I missed two others. Mary McAuliffe is here representing the committee staff. She's a Louisville native and, Mary, will you stand up and let these people see you? And the young lady who is doing all the work here in front of us. I don't know how she does it, but she is Nancy Gibson. Steve Halloway is the other individual who is here from staff and he's the fellow smoking the pipe with the whiskers. He is from Wisconsin.

The next panel will be the tobacco dealers: T. A. Norvell, president, Burley Leaf Dealers Association; and Alex Parker, Parker Tobacco Co., Marysville, Ky.

STATEMENT OF T. A. NORVELL, PRESIDENT, BURLEY LEAF DEALERS ASSOCIATION, LEXINGTON, KY.

Mr. NORVELL. Senator, I am Tom Norvell. I am president of the Burley Leaf Tobacco Dealers Association. I am here representing the 21 leaf tobacco dealer companies that are members of the Burley Leaf Tobacco Dealers Association.

Rather than limit my remarks to just the merits of S. 3118, I would rather attempt to address the apparent lack of consideration that elements of the Senate appear to have for an industry that offers the American society much in the way of employment, tax revenues, and public enjoyment. This bill, S. 3118, is just one effort among many in an attempt to destroy the tobacco industry and the benefits it provides. I am sure that other witnesses will provide the committee greater detail, but it is my understanding that the U.S. tobacco industry provides in excess of $6 billion in tax revenues to the various governmental agencies to which it must contribute. Further, I understand that it provides income for 1 million persons involved in the farm production of tobacco and created tobacco farm income of $2.3 billion last year. Also, some 41,000 persons with wages totaling more than $521 million were employed by the U.S. manufacturing companies. This employment and creation of tax revenues deserves just consideration when any attempt at legislation that interferes with industry success is presented.

The area of our industry that I am here representing today is the role of the burley leaf dealer. The leaf dealers are service-oriented businesses that offer their abilities and facilities to the United States and foreign manufacturing industry in several different areas. One large area of endeavor is that of servicing the leaf tobacco exports of this country to the consuming areas of the world. Total unmanufactured exports of all tobacco types from this country amounted to $1.2 billion in the year just ending.

In conjunction with manufactured exports, tobacco provided a much needed $1.36 billion favorable contribution to the Nation's balance of payments.

Of particular interest and pride to our association, burley exports have grown in recent years to where unmanufactured burley exports amounted to approximately 83.4 million pounds processed weight. The majority of this business was conducted through the member firms of our association. In providing the facilities and personnel to purchase, process, store, and ship these exports, the burley dealers also provide the local producing community with the economic benefits of capital investment in factories and equipment and employment for a sizable segment of the immediate area. To illustrate, members of our association have five operating facilities within the State of Kentucky that represent estimated capital investment in excess of $12 million and provide full-time employment for a minimum of 500 persons and seasonal employment for an additional 2,000. The total wages and compensation paid by these Kentucky firms is in excess of $8 million each year.

To further illustrate, within the city of today's meeting, three burley dealer firms have facilities with capital investment of greater than $7 million and annual payrolls and other compensation in excess of $4 million.

Also, our association has members located in other tobacco-producing States and by transporting the burley tobacco they purchase to these facilities carry the economic benefits to those areas. In particular, the States of North Carolina and Virginia have several large dealer facilities to conduct the even larger flue-cured exports of that area and some burley is moved to these facilities for processing.

The above benefits to the burley-producing area I have mentioned and the even greater benefits provided by other industry segments must be defended from those who attempt to gain political popularity by their shortsighted attempts to destroy a vital national industry. Senate bill 3118 deserves defeat and I trust that the wisdom and ability of this committee will serve that end.

Thanking you for allowing my visit and the opportunity to present the burley dealers portion of the economic impact of the U.S. tobacco industry.

Senator FORD. Thank you very much, Tom, for your statement.

Alex, would you go ahead with your statement now? I'll have some questions for both of you, I think.

STATEMENT OF ALEX PARKER, CHAIRMAN, PARKER TOBACCO CO., MAYSVILLE, KY.

Mr. PARKER. Thank you, Senator Ford.

Members of the committee, my name is Alex Parker. I am chairman of Parker Tobacco Co., Inc. of Maysville, Ky. My company has been involved with production, purchasing, processing, and selling of tobaccos, mainly Kentucky burley tobacco, since 1932. We operate worldwide.

I am speaking here today as an individual, a resident of Kentucky and a citizen of the United States.

Burley tobacco is the main agriculture cash crop of Kentucky. It has been and hopefully shall continue to be. There is a demand on a continued steady upward scale for burley tobacco on a worldwide basis. I know this for a fact because one of our organizations is constantly circulating around the globe keeping in close touch with the marketplace. The 600 to 625 million pounds of U.S. burley produced every year amounts to 5 percent of the world production of all tobaccos.

Any detrimental force to curtail the production of Kentucky burley, whether by law or taxation, would be a major financial blow to the many growers, their families and the overall economy of Kentucky. The domino effect would be disastrous.

Tobacco is the third largest source of revenue to the U.S. Government. Income taxes and petroleum are the only two ahead of it. The U.S. Government receives between 13 and 15 times as much in revenue per acre of tobacco as does the grower, netwise. As hard up as the U.S. Government is for revenue and with its fantastic deficit financial—welfare state—programs, it is really quite idiotic to try to comprehend their logic and reasoning to cut out completely the golden revenue from tobacco products.

Earlier in this century we had prohibition of liquor and it was chaotic. This same thing would happen with tobacco. The "peddlers" are standing by licking their chops waiting to get the nationwide smuggling business going. When they get in, there will be not a farthing for Uncle Sam. By adding additional taxes the net result will mean less revenue. New York State already has experienced this situation. Smuggling of cigarettes all over the world has become a tremendous business and the reason is the same as S. 3118 intends; excesive taxation and restrictions bring on cheaper ille[illegible] sales of cigarettes. For example, the present day flow of mari[illegible] coming

into the United States from Colombia and other places. The U.S. Government agents are apprehending only between 1 and 2 percent of the total amount of marihuana enroute to its destination. This marihuana group will be handling the cigarettes also.

To look further into this matter and to get down to the basics—my concern deepens. I am talking about the Constitution of the United States and my individual rights as a citizen of this country. The right that I hold most dearly is "the freedom of choice." S. 3118, like so many bills being presented today, is abusing and restricting my option to choose. I resent it terribly. I do understand and have sadly watched the decay of free enterprise slipping into collectivism. This transition has been directly proportional to the expanding growth of the U.S. Government bureaucracy. It is also quite obvious that this bureaucracy is a cancer and will finally destroy every freedom we possess. The House and Senate are really in the same position as we individuals and are merely used for the benefit of the bureauracy as they see fit.

I resent paying exorbitant taxes to finance Government agencies and programs that are sinister, wasteful and fraudulent while at the same time delivering us all into a "one-world society" that reeks of Marxism and mediocrity. For instance, the present GSA scandal which would amount to more than $500 million and the $20 billion of waste per year in the HEW budget of $182 billion. What will turn up in all the other agencies will be unbelievable. In essence, this makes the Kentucky burley tobacco industry absolute slaves to the whims of the free spending bureaucracy.

The deficit financing of our enormous bureaucracy will run in the red this year approximately $50 billion. This is the reason for the complete lack of confidence in the dollar by the rest of the world. This is why every dollar that I have generated over the past 30 years has been devalued in excess of 40 percent within the last 16 months. I am not only resentful—I am damn mad.

With the presentation of S. 3118, the nine Senators have beamed in on one particular industry—tobacco. Ultimately they plan to destroy this industry. If this is allowed to happen, the economy of Kentucky and five other States will be put in serious jeopardy.

Water seeks its level in life and the answer is moderation whether it is eating, drinking, exercising, smoking, or what have you. Each individual will have to adjust accordingly so as not to abuse his or her own physical, mental or spiritual presence.

Senator FORD. Thank you, Alex. I appreciate this very fine statement and I agree with many things you said relating to waste, and maybe we can begin to turn these things around. Once the wheel starts turning it's awfully hard to stop it and once we stop it its' hard to get it started, too.

Tom, how does export of tobacco affect the Kentucky economy?

Mr. NORVELL. The bottom line, as I mentioned in my testimony, for the country as a whole is the $1.36 favorable contribution to the balance of payments. I'm sure you have heard that today. Many witnesses have testified as to the effect it has to the local economy through farm employment. I have attempted in my statement to present to you the employment advantages that go with our particular part of it. The dealers have sizable organizations and facilities themselves and then also, other than that, the contractors and other businesses that we deal

with, such as the trucking industry and all the fuel and supplies that our business requires, again just adds to this rippling effect that's been mentioned here.

Senator FORD. Alex, in your statement you say that you have been involved with the production, purchasing, processing, and selling of tobacco, mainly Kentucky burley tobacco, since 1932. How much effect, in your opinion, would exports have on the income to Kentucky farmers? I'm trying to get it down to Kentucky now. I know we're looking at the broad area of tobacco sales, but how effective is it for Kentucky as it relates to exports? Do you have any idea? I don't think we have received that testimony today and I'd like to get it. I know the total, but I'd like to have it for Kentucky. We're running a $1.4 balance of payments.

Mr. PARKER. Right. We have a plus balance but I think the important thing about the tobacco that's grown for export is that most of your foreign purchasers are buying high quality tobacco and when they come into the marketplace here in Kentucky and they put their demand in, which is upward to 100 million pounds out of the 600 million, when they come in and put the pressure on the market, this generates more money. There's more money spent for tobacco. So it puts a plus pressure and more competition into our auction system.

Senator FORD. Are you saying that they come to Kentucky to buy our product because of its superior quality?

Mr. PARKER. That's the No. 1 reason; yes.

Senator FORD. And they come in to purchase approximately what—one-sixth?

Mr. PARKER. One-sixth.

Senator FORD. One-sixth of the production of burley tobacco in the State?

Mr. NORVELL. And that's growing, Senator, each year.

Senator FORD. I was here when they would come in and buy 5 to 15 million pounds and we thought that was pretty good. It did have an effect on the market when they came in at 5 and 15 million pounds. If they're coming in at 100 million pounds, it really is placing an economic impact on the upward trend as it relates to sales and income to Kentucky; is that correct?

Mr. NORVELL. The increasing popularity around the world of the U.S. blended-type cigarette is helping us tremendously in moving our tobacco production. Even though in some cases it's more highly priced than others it is helping us to move it into these consuming areas.

Senator FORD. Because of the quality?

Mr. NORVELL. Because of the quality.

Senator FORD. Maysville is the second or third largest tobacco market?

Mr. PARKER. Second.

Senator FORD. I was close. How many pounds of burley is moved through the Maysville market during the season?

Mr. PARKER. Maysville averages about 33 to 35 million pounds.

Senator FORD. That's an income of roughly what, $50 million, to the farmer through that market?

Mr. PARKER. That's $45 to $50 million, plus the amount of people who are working there in the warehouses and in the factories.

Senator FORD. But that income would go to the farmer and those who purchase it would put it into the product like you, then it would

be spending that money to make a profit off of the crop that's produced by the farmer by turning it into cigarettes and other related items. So it does have a rippling effect, in addition to that.

Mr. PARKER. Right. Everybody that handles it tries to make a little something on the way up.

Senator FORD. I understand. Do you believe that it turns over five times in a community; it's 5 to 1?

Mr. PARKER. I think so, yes.

Senator FORD. You think that is right?

Mr. PARKER. Yes.

Senator FORD. What would happen to Maysville if no more tobacco would be sold?

Mr. PARKER. I think it would be a tremendous shock to them. We raise about 8 million pounds in the county and every grower there raises tobacco. I would say every farm family there is involved in the production of tobacco.

Senator FORD. I was surprised when the Governor testified this morning that Pulaski County was one of the counties he spotlighted—that, as you know, is down in southeastern Kentucky and I wouldn't think of it as a tobacco growing county as such if you just look at a map. You think more of the Lexington-central Kentucky area, but they had over 4,000 allotments in that one county. So it indicates how important tobacco is not only to this region but throughout the State.

I think both of you have made excellent statements. I have no further questions. In fact, I was trying to grope for some. I always feel I ought to pull some out. If you have anything additional you would like to say before we close off, I'm perfectly willing to listen. If not, I want to thank you for coming today and I assure you that your testimony will reach Washington and hopefully we will make some inroads with it. I think you will be proud of taking time out today to come and testify so we can get it in the record. We thank you both.

Senator FORD. The next panel will be the bankers and we would like to hear from W. B. Collins, Bank of Maysville; and W. M. Ellis, executive vice president. Bank of Commerce and Trust Co., Lexington.

Mr. Ellis, would you like to start off with your testimony and if you want to just hit the highlights that's fine.

STATEMENT OF W. M. ELLIS, EXECUTIVE VICE PRESIDENT, BANK OF COMMERCE & TRUST CO., LEXINGTON, KY.

Mr. ELLIS. Thank you, Senator.

I am W. M. Ellis, executive vice president of the Bank of Commerce & Trust Co. and also a tobacco producer.

Thank you for this opportunity to appear before this committee on behalf of the tobacco growers in the State of Kentucky and on behalf of all Kentuckians. I say all Kentuckians because most all of our people either directly or indirectly depend on income produced by tobacco in one way or another.

I am informed that 118 of our 120 counties raise tobacco and a total of 144,741 farms had tobacco allotments which produced income to the farm owners and also a tenant if the owner did not raise the farms' tobacco; 225,000 to 300,000 of our people participated in the growing of our three types of tobacco. To show that these people believe in

raising tobacco and in the tobacco program they have voted approximately 95 percent in favor of the program every time we have had a tobacco referendum.

I well remember when Edward Breathitt ran for Governor in 1962. He promised agricultural leaders that he would work for $1 billion agricultural income for the State of Kentucky. About this time I was in Iowa and read that they had produced 986 million bushels of corn. It was easy to see that with corn selling at $1.15 and $1.20 per bushel that with corn alone they had well over $1 billion agricultural income. I understand we hit the billion mark in the year 1971 for all our agricultural products with tobacco contributing about 45 percent of this total. For the year 1977 the total of all our agricultural products was between 1.8 and 1.9 billion with burley tobacco producing 539,376,034 of this total.

I think by the figures I have quoted it is readily apparent that tobacco means so much to our people that it would be hard to predict how heavily Kentuckians would be hurt without a tobacco program. Farm loans for owners and farm tenants would be hard to come by and in many cases loans would be nonexistent to farmers because the bankers would not be able to see how they could be serviced.

It is hard to estimate how much farm values would drop, but I think it would be safe to say by at least 25 to 30 percent.

I believe that I would be safe in saying that almost every type of business in our State would be affected by any legislation passed that would hurt our tobacco program. All of our banks from the largest to the smallest would suffer much from such legislation. I have tried to establish how the growers and many others depend on the revenue produced by tobacco, but so did our National Government, our State government and also local government, to the tune of $6.6 billion for the year 1976.

With all the facts I have tried to point out and all the other witnesses today, may I humbly suggest that our Congress and our Health, Education, and Welfare Department join with other branches of our Federal Government and with State governments to do the necessary research to produce a safe cigarette for our American people as well as those to whom we sell in foreign countries.

In cooperation with our great universities and their research departments, both on a National and State level, should be able to produce a safe cigarette. We are reminded constantly that our imports are exceeding our exports. It seems it would be foolish to do anything to hinder the sale of tobacco to foreign countries.

Kentucky without tobacco would be like Iowa without corn, Nebraska without wheat, Georgia without peanuts, and Florida without oranges.

We cannot stop people from smoking but we can produce a safer cigarette.

Thank you for the opportunity to testify before this committee.

Senator FORD. I think I'm going to steal a statement from you in some of my speeches. I like that very much.

Mr. ELLIS. Thank you.

Senator FORD. Mr. Collins, do you want to give your statement now? I'll have a question or two for each of you.

STATEMENT OF W. B. COLLINS, BANK OF MAYSVILLE, MAYSVILLE, KY.

Mr. COLLINS. Mr. Chairman, I am W. B. Collins of the Bank of Maysville, Maysville, Ky. I was raised on a small general crop and livestock farm which included cash crop burley tobacco. I attended the University of Kentucky and obtained a B.S. in agriculture, and finally a M.S. in agriculture economics. I worked as county agricultural agent for 39 years. This included a great deal of work with tobacco farmers and other tobacco interests. I now work with the farm department of the Bank of Maysville.

In considering S. 3118, which I have read carefully several times, I will not try to quote statistics on tobacco as national, international, or even statewide economic impact of this bill. I'm sure you will, from other sources, have this type of information. Rather, I would like to give a little picture of the area I know very well.

One of our national leaders in the early days of this republic said, "The power to tax is the power to destroy." It seems to me S. 3118 was conceived in that vein.

This is enough philosophical talk. Now for a couple of facts in relation to S. 3118:

The average size farm in my area is about 130 acres. They produce crops and livestock and burley tobacco. The tobacco is about 2 percent of the land, 50 percent of the labor, but produces from 50 to 60 percent of gross farm income.

To replace this gross income for 130 acre farm it would take about 50 acres of corn, or 45 acres of soybeans, or 80 beef cows, or 160 sheep.

Anyone who knows the nature of our rolling land would say if we tried this on 130 acres it would not be long until our top soil would be in the Gulf of Mexico.

A second angle of the idea of using alternate farm income is that the farmer would not be fully employed. I tried to project farming in this area without tobacco and came to the conclusion that 40 percent of our farmers would have to quit farming. When he and his family moved to town they are apt to be on the low side of the economic ladder, maybe even unemployed. I don't want to see this.

A third angle of economic impact of loss of tobacco is the business in all our communities. I do not know how to estimate this, but it would be a large dollar figure. The chamber of commerce says one new dollar is multiplied six or seven times by the time it completes business. The gross tobacco income to farmers in our county, Mason County, Ky., is about $10 million. Using chamber of commerce figures in reverse, this is $60 million impact per year loss in one county.

There are 650 to 700 counties in the United States raising tobacco. Mason County is 2¾ times the average county in tobacco production. Using the above reverse figures of chamber of commerce, tobacco has a $13 billion impact on national economy.

Mr. Chairman, you could take the 2 billion pounds of tobacco produced in the United States and project them forward and get another large money figure; but either or both would be important in considering S. 3118.

As you can see, my main concern is farm families I know and work with every day. As a banker, I am also deeply concerned about people

who serve farmers and do business with farmers. In considering the economic impact of all the items I have mentioned, S. 3118 is 100 percent negative.

Senator FORD. Thank you, Mr. Collins, for that fine statement.

Mr. Ellis, let me ask you this. You come from a large community—and I'll ask Mr. Collins the same question—how important is the tobacco base on a farm when you're considering loaning a farmer some money?

Mr. ELLIS. I think probably the $3 per pound is really low. Over the past 4 years I think we have seen cattle in the worst situation I've ever seen it. If it hadn't been for the tobacco program some of the cattle people could not live. They would have sold their farm. So I really think $3 per pound is low when you start appraising the value of a farm. I think it's probably more than that.

Senator FORD. Mr. Collins, you stated it pretty well but I want you to reiterate to me about the small family farmer in Mason County. Is that an average acreage, about 130?

Mr. COLLINS. Average size of farm.

Senator FORD. Average size of farm is about 130 acres?

Mr. COLLINS. That's correct.

Senator FORD. If you have sheep I think you said to replace gross income from a 130-acre farm, it would take about 80 sheep, 50 acres of corn, 80 beef cows. Well, corn at what price? We don't really know.

Mr. COLLINS. $2 a bushel.

Senator FORD. At $2 a bushel. All right; 80 beef cows at what price?

Mr. COLLINS. Last year's price, not this year's.

Senator FORD. At last year's price. OK. What was last year's price?

Mr. COLLINS. For the cattleman, 30 to 35 cents.

Senator FORD. And if you had 160 sheep on 130 acres, how long would it last?

Mr. COLLINS. Whenever grass gets that high [indicating], they want it.

Senator FORD. So it wouldn't last very long; would it?

Mr. COLLINS. No; it wouldn't.

Senator FORD. How much ground would you need per sheep?

Mr. COLLINS. Well, sheep unit is figured five head and you need 2.5 acres per unit, so 1 acre or a little less per head.

Senator FORD. So there's no way you could put 160 sheep on 130 acres and make a go of it.?

Mr. COLLINS. No.

Senator FORD. So what we're trying to do is look at alternate crops. Do you have any idea what an alternate crop might be to replace tobacco?

Mr. COLLINS Well, I've thought about trying to depend on that, and the ones we have tried have been disastrous.

Senator FORD. I don't know of anything. And when you say it depends on the price, if you take tobacco out and everybody starts raising sheep, the price of sheep is going down. Wouldn't that be right?

Mr. COLLINS. It might be true.

Senator FORD. And the land in your area is not conducive for soybeans or corn; is it?

Mr. COLLINS. Only a small percent. If you use SCS figures, only 45 percent of our land, of that 130 acres, is crop land.

Senator FORD. So really there's just no way you can take the income from tobacco and the small percentage of land and be able to substitute it for another crop in almost any location in this state?

Mr. COLLINS. I don't know where. There isn't any question that a large group of them would have to quit.

Senator FORD. We had testimony I think from the Department of Agriculture this morning, Mr. Ellis, that said as we go to a 25-cent tax per pack of cigarettes that that would reduce the need for burley tobacco about 30 percent and that would eat into the income of just the farmer of somewhere around $175 million annually. What would that do to the farming community in and around this area and contiguous counties?

Mr. ELLIS. Well, I agree with Mr. Collins. A lot of farmers would have to stop farming. They would have to move to town and the only way the've existed the last 3 or 4 years, with the cattle business the way it is, was the tobacco crop. It hurt them tremendously. This would hurt them.

Senator FORD. Do you agree with Mr. Collins' statement that they would come to town on the low income side and possibly welfare?

Mr. ELLIS. I think they would have to because most of them are not skilled.

Senator FORD. Let me ask you this, Mr. Ellis. I think there was some testimony this morning about several thousand banks—like 14,000 banks—about half of those are small community banks. If tobacco was reduced 30 percent, what would this do to the banking community?

Mr. ELLIS. Well, it would immediately, I would think, reduce our deposits by 30 percent. It would reduce our loans possibly 20 percent. So it would, in effect, reduce our income because the loss of the tobacco, as some of the witnesses have testified, affects every facet of our economy and every business. As the man from Shelby said, he can hardly think of a business that it didn't affect one way or another. I tried to think of some and I don't know that I can come up with any business that in some way or other would not be affected if we didn't raise tobacco.

Senator FORD. So not only is it a financial problem if it was eliminated; but it's a way of life. It's something we know. It's handed down from generation to generation with improvements. The agent goes out and gives a little advice on this year compared to last year and improves their ability to raise it. And I think the thread that's running through here is that the rippling effect of the loss of tobacco is going to be economically a traumatic experience.

Mr. ELLIS. It would be almost chaotic.

Senator FORD. Gentlemen, I'm grateful to you for your testimony and I appreciate you being here today and I assure you that your testimony will be carried forward. If you think of anything that you would like to let us know of, we would be glad to take it.

Mr. COLLINS. With respect to my statement about tobacco farmers going to town—tobacco farmers are specialists and as Mr. Parker testified, American tobacco is wanted all over the world and that's because tobacco farmers are specialists. When he moves to town he's a nonspecialist.

Senator FORD. There's no specialty for growing tobacco in town?

Mr. COLLINS. Not that I know of.

Senator FORD. And not that I know of either. When I moved to town they didn't raise any there.

Thank you, gentlemen, very much.

Our next panel will be Kenneth Frith, Kentucky Fertilizer & Agricultural Chemicals Association from here in Lexington; Mr. Barney Tucker, president, Burley Belt Chemical Co., Lexington; and John Henderson, regional manager, Southern States Cooperative, Lexington. If you three gentlemen will come forward we will hear your testimony and get into some of the questions.

STATEMENT OF BARNEY TUCKER, PRESIDENT, BURLEY BELT CHEMICAL CO., LEXINGTON, KY.

Mr. TUCKER. Thank you, Senator.

I am Barney A. Tucker, an associate in a burley tobacco warehouse operation in London, Ky.; an executive officer of a Lexington-based fertilizer manufacturer and distributor serving a five-State area. I have served as a director of a national bank in London; have been a member and chairman of the Cincinnati Federal Reserve Board; have been a member and committee chairman of a Kentucky Governor's council on agriculture and a past president of the Kentucky State Chamber of Commerce.

I am here today to oppose S. 3118, and to strongly urge the rejection of this, or any other measure which similarly proposes to further erode the social, personal, and economic liberties of any group of hard-working, law-abiding, tax-paying American citizens.

The damaging impact this bill will have on the economy of a wide area of our country is well documented by others who have or will appear before you, and I subscribe wholly to their conclusions. But there also are other objections to this proposal which, if you will permit, I would like to discuss.

All of us were led to believe that legislation adopted in the 1960's would forever end segregation among the good, solid citizens of our country, but under this bill we find such would not be true, since it not only would prohibit any smoking in some public-owned areas, but also would require segregation of smokers from nonsmokers in others. My standing in line at the stamp window of the post office with a lighted cigarette or cigar or pipe in my hand would be no more offensive to the average citizen than if I were there unbathed, or after imbibing one too many scotch and soda, or with a head cold and runny nose.

This bill is so inconsistent. Just look at the irony of the same Congress that passed the Humphrey-Hawkins full employment bill also proposing this measure which would jeopardize the jobs and livelihood of literally tens of thousands of workers on America's farms and the many phases of the tobacco industry. And the same Congress that has been seeking ways to reduce taxes and reduce expenditures proposing this bill which would call for still more taxes and still more spending—$90 million to begin with, right off the top, not including untold more millions in administrative and enforcement costs; and with it all add still more to our evergrowing, evermore mostly and evermore unmanageable bureaucracy.

As all of you ladies and gentlemen should know, Government spending accounted for about 11 percent of our gross national pr-

1940. Today this figure is approximately 38 percent and at the present rate of growth will reach 60 percent by the year 2000. We are mortgaging the future of our children.

I am a retired Army Reserve officer who first as a civilian draftee and second as a reservist answered the call to do my bit to help protect and insure a freedom of choice for my children and yours, as well as generations of Americans yet unborn. Our forefatehrs did it for us. Should we do less for them?

This bill proposes to restrict the smoking of cigarettes, cigars, or pipes in certain areas, so in that respect it attempts to lump all three users of tobacco as fellow felons. But it would be interesting to know the reasoning of the authors of the bill in their so obvious elimination of cigars and pipe tobaccos from the tax and labeling provisions of the act.

Now I am not going to bore you gentlemen with a long rebuttal to the argument that all smoking is harmful, but I would like to make a very brief comment in that respect. In spite of the fact that billions of cigarettes, cigars, and pipes of tobacco are consumed in this country every year, it still is true that life expectancy in this Nation is increasing. In other words, in spite of all this so-called fatal danger from smoking, Americans are living longer and staying healthier than ever before in history. Also, it is undeniably true that the areas of this country that have the highest incident of cancer are not—and I repeat—are not those with the highest rate of smoking.

Government must put a stop to this eternal and infernal meddling into all the social and economic activities of the American people. Our health, our standard of living and our way of life are the envy of other peoples all over the world. And Congresses and State legislatures must stop messing with them. I have enough confidence in the "smarts" of the American people to recognize that they do not need the guiding hand of a benevolent but dooms-day-minded government on their shoulders throughout their lives.

Americans of all walks of life know that the excessive use of sweetners, excessive use of animal fats, excessive use of alcoholic beverages, excessive use of insecticides, and, yes, even the excessive use of tobacco, may be harmful to their health. But they also know that excessive government can be equally harmful to their life, their liberty and their pursuit of happiness.

If the Congress cannot devote more of its time and energy to correcting the real ills of our country the citizenry will set a new direction. I firmly believe there will be many more "proposition 13's" that will go far beyond local tax issues.

S. 3118 is yet another tax proposal. We, the people, are sick and tired of working our hearts out to send money to Washington, only to see it given away and otherwise disappear through waste, graft, mismanagement, and milktoast programs.

I urgently ask for a quick and determined rejections of this and other similar legislation, and I think you for this opportunity to express myself. I am sincerely grateful.

Senator FORD. I think you expressed yourself very well.

STATEMENT OF KENNETH FRITH, EX-OFFICIO PRESIDENT, KENTUCKY FERTILIZER & AGRICULURLAL CHEMICALS ASSOCIATION, INC., LEXINGTON, KY.

Mr. FRITH. I am Kenneth Frith, ex-officio president of Kentucky Fertilizer & Agricultural Chemical Association, Inc.

Mr. Chairman and members of the committee: I want to express my thanks and do appreciate the invitation to appear before you to present the effect of the taxing provision of the bill will have on the agricultural chemical and fertilizer business of Kentucky.

In most farming communities of Kentucky, southern Indiana, Tennessee, and southern Ohio the whole community depends on the "money crop" tobacco. Tobacco subsidizes the other crops. In 1977 the value of tobacco at the Kentucky farmer level was $551,847,000. This was an average of $121.06 per 100 pounds. This was 46.6 percent of the total crop value of Kentucky farmers. Cut the tobacco income with added tax of $0.05 per pack to $0.50 per pack you will cause a depression to come over this whole area like the big snow we had last winter. All business in this area will suffer drastically because the tobacco farmer will not be able to buy goods such as tractors, trucks, sprayers, TV's, and even food, because his money crop will be gone.

In Kentucky we have many small tobacco farmers who produce an average of just a little over an acre of tobacco per farm, and in Tennessee the average is 0.5 acre of tobacco per farm. Kentucky has more small growers than an other State. For instance, we now have certified 81,000 farmers to use agricultural chemicals and Tennessee has 56,000. These farmers buy from many thousands of dealers who are the backbone of every community. The whole buying power depends on the tobacco crop. If this tax is successful, the crop will be curtailed as much as 25 to 50 percent.

Last week, I saw a TV program that said the yearly average per capita income in Washington, D.C., was $22,000—the highest of any city in the world. A token tax relief was passed recently, and now on the other side we feel that the tax you are imposing would bring in far more than the tax you lowered. But on the other hand, if we lose our farm profit income, then maybe we all will have to move to Washington and get some of those high-paying jobs. Don't we really have too much concentration of income in Washington?

We, of the fertilizer and agricultural chemical industry, see many thousands of small farmers involved in raising tobacco. The crop is not mechanized so the whole family derives income from the crop. Quite a few tobacco crops are also raised on weekends by the whole family who come home to help their parents out with the crop. The highways are jammed with these people on weekends and this, of course, helps keep the family knitted together and also affects the economy of Kentucky. Kentucky families are extra close, and keep contact with each other by working together.

The income from the tobacco farmer affects the buying capacity of the farmer to buy not only agricultural chemicals and fertilizer but all other commodities necessary to live in this State.

The amount of tobacco raised on a farm determines a large part of the real estate value of the farm. Take the tobacco away by passing this bill and you will reduce the value of each farm and that also lowers the amount of taxes that will be collected.

This tax bill needs to be defeated, and if it is not, the whole State will probably be affected by a depression and most of the businesses directly connected or indirectly connected will be out of business. Thank you.

Senator FORD. Thank you very much.

STATEMENT OF JOHN HENDERSON, REGIONAL MANAGER, SOUTHERN STATES COOPERATIVE, INC., LEXINGTON, KY.

Mr. HENDERSON. Senator Ford, members of the committee: I am John Henderson, regional manager of Southern States Cooperative, Inc. Southern States Cooperative and its retail distribution in most Kentucky counties is a major supplier of production supplies and services for farmers in Kentucky. These supplies and services include those utilized by tobacco farmers.

These tobacco supplies include fertilizers, agricultural chemicals, plant bed supplies, tools, equipment, seed, and others. Through the observation of retail store operations and from volume and accounting records of these retail stores, we have opportunity to observe the involvement of Kentucky farmers in the production of tobacco and its relationship to the operation of retail farm supply stores.

While we do not, as an organization, compile records or statistics involving tobacco production, we are in a position to formulate opinions and make observations as to the economic impact of tobacco production on farm supply stores.

Some of these are as follows:

1. Tobacco provides Kentucky farmers with a cash crop that enables them to have flexibility in their cash flow and to take care of financial obligations that many farmers cannot provide for otherwise. A high percentage of retail account receivables are paid in December and January on the sale of the farmers' tobacco crop.

2. Tobacco production permits a relatively small farmer or part-time farmer to be an economically practical unit. Tobacco provides for relatively high income from small acreage. The small farmer's financial welfare is essential to farm supply businesses and others dealing with him.

3. Tobacco production has provided a stabilizing influence on farms in Kentucky. The dependability of income from a tobacco crop blends with the uncertainty of livestock prices, crop production, and crop prices. Farm supply stores depend on the stability of tobacco farming in supplying products and services for all farmers.

4. Heavy investments have been made in land, buildings, and equipment by farm supply organizations for the purpose of providing product and service to tobacco farmers in Kentucky. The effectiveness and risk of these investments depends upon continued use by tobacco farmers of these facilities.

5. Retail personnel of farm supply stores depend on the tobacco farmer for their jobs and careers. Without the tobacco farmer, the demand for service of these employees declines.

6. Federal programs that would make tobacco production ineffective insofar as an income to the farmer, create hardships not only on the farmer, but on the farm supply organizations who provide products and services for him.

7. While retail farm supply stores provide product and services to all farmers, the impact of production needs for tobacco determines the success or failure of many retail stores located in tobacco production areas.

We would oppose legislation that would have substantial adverse economic impact on the tobacco farmers of Kentucky. We feel that the Smoking Deterrence Act of 1978 will have an adverse economic impact on Kentucky farmers and those who serve them.

Senator FORD. Thank you very much, John, for an excellent statement.

I don't know how to pose this question, but it would be to any one of the three of you. What is the ratio of the chemical industry or chemical supply business that's necessary for tobacco as it relates to other crops? Is it higher or lower? Is there good business in relation to tobacco? I don't want to delve into what you all make or lose or that sort of thing, but a percentage of the chemical business?

Mr. TUCKER. As far as fertilizer is concerned, we have nine plants, including the river terminal in Louisville, and about 50 percent of our Kentucky division is tobacco fertilizer.

Senator FORD. What about the others?

Mr. FRITH. As far as agricultural chemicals. I'm a pesticide formulator and distributor. About 50 to 60 percent of my business is connected with tobacco and, of course, I spread out into four or five States.

Senator FORD. What other crops would you furnish chemicals for?

Mr. FRITH. We furnish chemicals for gardens and also for corn and soybeans and for orchards and those things too—like tomatoes—anything that's grown.

Mr. HENDERSON. We would think in terms of probably statewide tobacco users would purchase about 25 percent of their total supplies, which varies from a tobacco area, such as central bluegrass, to other areas. But generally speaking, overall, 25 percent of our business would come from tobacco farming.

Senator FORD. So you three gentlemen here represent businesses that relate to tobacco from about 25 percent of your total up to 60 percent. That is a pretty good hunk of the business that you do and if you all lose 50 percent or 25 percent or 60 percent of your business because tobacco would be diluted—say we take 30 percent and we start feeling the effect of that estimated $175 million at present-day prices throughout the economy—you all would feel that very quickly, wouldn't you?

Mr. TUCKER. We would have to close several of our plants.

Senator FORD. In order to make it?

Mr. TUCKER. Yes.

Senator FORD. So the economic effect as it relates to your business—and you relate to others and you employ people and you have bookkeepers and so forth and that would have to be reduced—it would have a rippling effect not only from the income to the farmer but to the related businesses.

Can any of you think of a business that wouldn't have some relationship to tobacco? Is there any business you can say tobacco doesn't affect it in some way in this State particularly and those other States——

Mr. TUCKER. I can't think of anything in this area.

Senator FORD. I can't either. I think we're getting into the legal arena—freedom of choice here, Barney. From your two experiences, one as being drafted and the other one going into military service in the reserves—as you know, I have had a little of that myself—we think of the freedom of choice and the constitutional aspects of it. That's getting into a pretty meaty question and I don't know whether we would win or lose with that question—and I'm not going to ask my legal expert here who will be sworn in Friday—I'll wait until Friday before I ask for that.

I made this statement earlier and I don't know whether you were here. The statement was made on the Senate floor that the rich people have yachts to relax on and money to pay the psychiatrists, but the others have rocking chairs and cigarettes and now they're trying to take cigarettes from us.

I had a letter recently from a senior citizen in the State of New York by the way, and he said:

> They have taken everything else away from me, "Father Time" and the general public. Now you're going to take my right to go out and buy cigarettes away from me, so I resent it very much.

There is an attitude out there of being segregated in business and right here in this town in franchise businesses you can go in and they'll say, "Do you want a smoking or nonsmoking area?" And I find there's usually a waiting line for the smoking area and in the nonsmoking areas there are some tables where you could sit down and eat. Hopefully we can make this a little bit more tolerable.

One of the things that bothers me—and if you all want to make any kind of comment, go ahead—we've got a fight going on now within the tobacco industry and that fight is in the free and open market as to who can produce the lowest tar and nicotine cigarette. In this morning's paper there was a full-page advertisement from one of our Kentucky producers on a new light cigarette which is low in tar and nicotine coming out. I think we have that going for us in the free enterprise system.

Those who are opposed to high tar and nicotine cigarettes ought to sit back and say "We've got it going and we don't have to do a thing." If this bill should go into effect, think of the millions of dollars that would go into hiring new bureaucrats and more agencies and more "Big Brothers" looking over our shoulder and coming in and auditing your books. And what they can't get by legislation, they get by regulation; and that's one of the things I see that is awfully hard to correct.

Mr. TUCKER. Senator, it seems to me the bill is very inflationary, too, when you look at the aspect that it says all future construction of Federal buildings will be so planned and constructed as to segregate the smokers and nonsmokers. That has to be costly and that would necessarily add tremendously to the cost of future buildings.

Senator FORD. What we have seen—the news people from out of town who talked to me this morning said that this is a one-sided hearing. We are just hearing one side of the issue. Well, the other side of

the issue has already been heard and that was heard by Senator Kennedy in Washington, and I think next time, for those of us who have an interest in the future of this State and this country, that we should look at the economic impact and also look at regulations.

We will have hearings next month, Barney, by the way, on what regulations and new environmental protection equipment have cost the consumer and how this has fanned inflation in this country. I think maybe we'll find some right interesting testimony, some right interesting facts, and hopefully that will tie into what we are getting into here. The entrenched bureaucrats can regulate what they fail to get by legislation. They legislate by regulation.

I'm on your side. I appreciate you all coming very, very much and you have made three excellent witnesses.

This completes the testimony, but I'd like to offer the opportunity to anybody in the auditorium who has not testified if they would like to come forward and make a statement. If you would like to do that, I would be more than willing to listen to any of you. I want to present the opportunity to anybody who might be left here today to testify. Is there any such individual in the auditorium that would like to make a statement as it relates to this legislation?

[No response.]

Senator FORD. I want to thank the Department of Agriculture here for all of their help and Charles Gulley, who's assistant to the dean, has just been fantastic. He's done everything from wiring up the microphones to bringing us coffee and everything else, and nobody could be any more helpful or more congenial than he is and we are just pleased. And I hope that the staff that's here with us today and myself, along with Senator Huddleston and others, can take this type of testimony back to Washington and use it feeling that we can fight the battle with the facts, and I don't think any of those who have gone on the emotional side of this issue have any idea what the economic impact would be to the various States and the businesses even in their States.

So this hearing is concluded. We start in the morning at 9 o'clock at Western with another group with the same interests as we have today and we would be delighted to see you there in the morning.

[Whereupon, at 2:45 p.m., the hearing was recessed, to be reconvened in Bowling Green, Ky., at 9 a.m. Tuesday, October 24, 1978.]

SMOKING DETERRENCE ACT OF 1978

TUESDAY, OCTOBER 24, 1978

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE FOR CONSUMERS,
Bowling Green, Ky.

The subcommittee met at 9 a.m. in the Downing University Center, Western Kentucky University, Bowling Green, Ky., Hon. Wendell Ford (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR FORD

Senator FORD. If I could have your attention for just a moment. Those of you who do not have seats and want to take seats, there's no reason to make it look like a Baptist church. The front row is empty, you know.

I want to introduce all of my folks and be sure I don't miss any.

First, on my left is the newest and prettiest lawyer in the State of Kentucky. She'll be sworn in at the court of appeals on Friday. She passed her bar. She is from Hickman, Ky., and she's been on my staff for 3 years and now she's on the Commerce Committee staff in the consumer affairs area, and that's Amy Bondurant. Her father is a circuit judge and she cannot practice before him.

The young lady on my right is Martha Maloney, who is from New Castle. Some members of the legislature here will remember Martha as she was very active and probably the top female as it related to the Legislative Research Commission in Kentucky. She's been with my personal staff now for a little better than a year and we are very pleased and very delighted that she could join us.

Mary McAuliffe is here somewhere and she's doing a job for me and I want to introduce her to this group. She is representing the Commerce Committee. She is from Louisville and is very active and very helpful as it relates to the Commerce Committee staff.

And Steve Halloway is the only non-Kentuckian, but we are about to indoctrinate him. I believe he found out about a brown liquid last night that was very attractive to him and he's going to take some of it back to Washington. Steve Halloway is from Wisconsin.

And taking every statement that was made yesterday and that will be made today is Nancy Gibson, to my right, from Washington. She is our committee hearing stenographer. I don't understand how she can hit those keys and come up with what I say, but she's very accurate and we're very pleased to have her. Last night she was putting all her things together after the rest of us had called it a day, but she was still working and we were very pleased.

I do want to make an opening statement. I want to also say in the beginning that what we are doing here is very, very important, not only to Kentucky but to the tobacco-producing States and to the total spectrum as it relates to the financial arena, the economic arena of Kentucky and the Nation.

One individual I did not introduce that I want to introduce—he's like a little fellow who runs here and there but he always gets the job done. He's from Lexington, Ky., and he's my public relations man, Mike Ruehling. Mike, you were keeping your head down and working and I almost missed you.

I want to thank so many of you for coming to the hearing today. I will keep my opening statement brief because the reason we're here is to give you the opportunity to tell the Kentucky side of the story about the importance of tobacco to the economy of not only this State but other parts of the Nation.

Smoking has been under attack continuously since tobacco was first introduced over 400 years ago. The controversy over tobacco continues to simmer, not only in Washington but elsewhere.

For example, since 1963, at least 30 States and the District of Columbia have enacted laws that ban smoking in certain public places. Antismoking restrictions have been imposed in hundreds of local communities and airlines are now considering banning smoking from all commercial air flights.

The most recent controversy over tobacco at the national level has centered around the crusade of Health, Education, and Welfare Secretary Joseph Califano, who has waged virtually a one-man war on tobacco. His request for funds to carry out this campaign were substantially cut by key tobacco-State legislators in Congress. Even though we have been able to hold Califano at bay for the time being, several other attempts were made in the recently concluded 95th Congress to enact legislation that can only be characterized as punitive to the tobacco industry.

Among the most publicized of these legislative efforts was the bill introduced late in the session by Senator Edward Kennedy and it's this legislation which is serving as the focal point for these hearings. Even though the bill failed to be brought to the Senate for a vote, Senator Kennedy or others may reintroduce similar legislation, and I expect it to be introduced, including a bill to tax cigarettes on the basis of tar and nicotine content.

Thorough and exhaustive hearings have been held to advance the cause for why this legislation should be enacted and every aspect of the health questions surrounding tobacco has been explored in great detail in hearings held by Senator Kennedy.

Meanwhile, those who oppose such an approach as the one Senator Kennedy proposes have had little opportunity to make their views known for the record, particularly as they relate to the economic repercussions of this legislation.

The proponents of this legislation do not recognize that tobacco is a multibillion dollar business which makes a sizable contribution to the American economy. They do not understand that more than 600,000 farm families, 90 percent of the small family farms in this State alone, derive much of their income from tobacco, and they continue to refuse to consider the argument that the sheer economics of

this is not a very large income, but it is the maintenance stabilizer that enables and encourages the "family farm concept" that is so essential to the economy of the entire United States. This income has become the mainstay of the small farmer. He can count on that income to pay his taxes, insurance, interest, et cetera, thus permitting him to hold on to his family farm. Even small acreage farms can produce revenue that enables them to continue to exist. There are many part-time farmers who raise tobacco and are still highly productive in grain, dairy cattle, beet cattle, and produce that feed the families of the area.

Tobacco is grown on 400,000 farms in the United States, including all 120 counties of Kentucky, and involves approximately 600,000 families depending on income from a tobacco crop. Of the total cash crop receipts received by Kentucky farmers, 46 percent of that total is derived from tobacco.

Kentucky is the second largest tobacco growing State in terms of crop value, with Kentucky farmers receiving over $571 million for 470 million pounds of tobacco that was produced in 1977.

The tobacco stabilization program, like other agricultural commodity programs, limits the amount of tobacco grown and sold. This insures fair price and stabilizes the supply and demand. The allotment program allows farmers to borrow money using their tobacco crop as collateral and it is owned and operated by its producer members.

The provisions proposed in S. 3118 would deal a devastating blow to the tobacco industry in Kentucky and to its related industries, thus affecting the whole economy of Kentucky.

Between 1950 and 1960 the attacks against tobacco was at the product—the cigarette. This led to the package warning label, the broadcast advertisement ban, and higher taxes. The attack on tobacco is now directed at the users of the product to make them socially unacceptable.

Jack Hoffman, past president of the American Lung Association said:

> Probably the only way we can win a substantial reduction of smoking is if we can somehow make it nonacceptable socially. We thought the scare of medical statistics and opinions would produce a major reduction. It didn't.

In the last 3 to 5 years new organizations have sprung up to make the use of tobacco socially unacceptable and to modify human behavior. Some of these are: ASH, Action on Smoking and Health; FANS, Fresh Air for Non-Smokers; GASP, Group Against Smokers and Pollution; SHAME, Society to Humiliate, Aggravate, Mortify and Embarrass Smokers, as well as other "Do-Gooder" organizations.

Fifty years ago such crusaders were aroused by the consumption of alcohol. Prohibition was supposed to have saved the Nation, but it created more problems than it solved. (This also affected another good Kentucky product.)

In a recent lawsuit seeking to prohibit smoking and the sale of cigarettes at the New Orleans Superdome, the antismoking groups filing the suit had sought to use the U.S. Constitution as a basis for the smoking ban. But Federal District Court Judge Jack M. Gordon ruled that—

To hold that the first, fifth, ninth or 14th amendments recognized as fundamental the right to be free from cigarette smoke would be to mock the lofty purposes of such amendments.

Dr. Peter Bourne, Special Assistant to the President for Health Issues, said:

Because of the political, social and economic ramifications, it is unrealistic for us to suggest a tobacco prohibition as a feasible short-term goal, and that campaign would bring into question our own credibility. It is there that we are on our weakest ground. While prohibiting use of cigarettes in public places would please nonsmokers, it would not necessarily reduce overall cigarette consumption or reduce the health consequences.

The report of the advisory committee to the Surgeon General in 1964 failed to establish a cause-and-effect relationship between cigarette smoking and cancer and other diseases. Many questions remained unanswered in the Surgeon General's report, questions that can only be answered by research. The tobacco industry is doing its part to help resolve the smoking and health controversy. They issue grants with no strings attached, except a pledge to apply the money to legitimate scientific research.

S. 3118 which could easily be referred to as "the Califano nonsmokers equal rights legislation" will strengthen his nonsmoking campaign and encourage the antismoking groups to further secure Government intervention in the personal preference of 60 million adult Americans. This is about 40 percent of the total adult population.

The American Cancer Society who receives approximately $100 million annually in tax-exempt contributions has diverted $1 million to behavioral modification in its Target 5 project which proposes in the next 5 years to reduce adult smokers by 25 percent, prohibit advertising of brands of cigarettes with half the average tar and nicotine, require stronger label warnings on packages and eliminate the Federal tobacco support program. The latter proposal would be most detrimental to the tobacco industry and to the tobacco farmer in Kentucky.

The tobacco industry has a major economic impact on the U.S. economy. Tobacco is grown in 22 States and is the fifth largest cash crop. Last year consumer expenditures for tobacco products exceeded $16 billion. The United States is the leading exporter of tobacco and the third largest importer. The result is a positive net contribution of more than $1 billion per year to the U.S. balance of payments.

Federal, State, and local governments realize some $6 billion annually in direct taxes to tobacco products. This revenue helps provide schools, roads, hospitals, and other vital government services.

Kentucky collected $38,001,870 on cigarettes sold in Kentucky. The Federal Government collected $2,279,246,000 on cigarettes in the United States.

Smokers pay these taxes without receiving additional services. In addition to the tax and income revenues, Kentucky is the third largest tobacco manufacturing State. In 1977 almost 18 percent of the Nation's cigarettes were produced in Kentucky, along with one-third of the Nation's smoking tobacco, half of the chewing tobacco, and about 3 percent of the cigars. There were 12,287 people employed in tobacco manufacturing in Kentucky in 1977.

The proposed legislation in S. 3118 is detrimental to not only our tobacco industry, which is already over-taxed and burdened by many,

many governmental regulations, but it would serve no purpose other than to destroy the tobacco industry in Kentucky.

I would urge this committee take these things into consideration and reject S. 3118 in its entirety. We feel like it would serve no good purpose.

Thank you, and I would be delighted to answer any questions.

Senator FORD. Thank you very much, Senator Miller.

I noticed in your statement, you said the attack led to the package warning label. I don't know how many in this room understand, but S. 3118 would require 10 labels and they would be prescribed by law and those labels would have to be comingled—so many packs would have one label and another few packs would have another label. So that's additional expense not only to the industry but it would be passed on to the consumer.

In your testimony you described tobacco in your district as a maintenance stabilizer and I think you have fully explained the importance of the tobacco to the farmer. What would happen to the small businessman in your district if the farmer could no longer raise tobacco?

Mr. MILLER. Are you talking about the small farmer?

Senator FORD. The small businessman. The farmer turns over a lot of money. The stores, in my opinion, couldn't open their doors unless they had the Christmas money from tobacco.

Mr. MILLER. All you have to do is live in an area where there's tobacco farming. We look forward to those tobacco checks like some people do to welfare checks. It not only stabilizes that farmer, but it stabilizes the small businessman in goods and services that these people have to buy. It's sort of like Santa Claus when they come with the tobacco checks. They're going to buy the goods and services that are required and this is the one cash crop that they have this extra money to buy the few extra things that they need.

Senator FORD. I know we have other members of the legislature that will testify this morning and I look forward to their testimony, but you referred to S. 3118 as the "Califano nonsmoker's equal rights" legislation. What was the opinion of Mr. Califano in the Kentucky General Assembly?

Mr. MILLER. On a ranking of 1 to 10, I would say he would rank 10. There was a resolution introduced by one of my good friends in the House asking for his resignation. There was a copy I think that was provided for you. The general assembly felt that he was the one individual who probably would be most detrimental to the tobacco industry in Kentucky and we resented this because it is our backbone.

Senator FORD. Senator, we appreciate your testimony. I won't keep you any longer. You have done an excellent job and I appreciate you being here this morning and I look forward to working with you very closely in the future.

Mr. MILLER. Thank you very much.

Senator FORD. I want to admonish those people here just a little bit this morning. I'm on your side. We have rejected this up to now and hopefully we can develop the testimony here that will put us in a position to continue to reject it.

The next witness is the State Representative Donald Blandford from Davis County and Don is chairman of the house agriculture commit-

tee. I think Don has also been on the governmental committee and several others in his tenure in the legislature.

Don, we are delighted to see you this morning and you can proceed and then we have some questions for you.

STATEMENT OF HON. DONALD BLANDFORD, STATE REPRESENTATIVE, PHILPOT, KY.

Mr. BLANDFORD. Thank you. I, too, appreciate the opportunity to be here and to testify on something that is of vital importance to the people of Kentucky.

My name is Donald Blandford. I am a member of the Kentucky House of Representatives and serve as cochairman of the interim joint committee on agriculture and natural resources of the Kentucky General Assembly. I am also a member of the Kentucky Tobacco Research Board, which is engaged in very extensive scientic research regarding smoking and health. Consequently, I am very familiar with the tobacco industry and the problems which it has faced for several years.

Tobacco is extremely important to the economy of Kentucky. For example, the more than $500 million which it brings into the economy of the State each year in the form of cash receipts to tobacco growers constitutes one-third of the total amount of cash receipts from farm marketings. Also, more than 250,000 families in Kentucky are involved in the production of tobacco.

The adverse economic effects of S. 3118 would be felt throughout the economy of Kentucky. But a tremendously adverse effect would be upon the small tobacco grower. Many tobacco growers in Kentucky have very small quotas or allotments of tobacco. About 40 percent of all burley tobacco quotas are less than 2,500 pounds; 35 percent of all dark fire-cured tobacco allotments are less than one acre; and about 90 percent of all dark air-cured tobacco allotments are less than one acre. The growers of tobacco with these small allotments and quotas have small farms and have minimal farm incomes. Any additional adverse economic impact upon these farmers would put them out of the farming business. These people generally have little or no training or education which would permit them to make a proper transition to another vocation. The economic and social impact upon these small tobacco growers would be undesirable.

S. 3118 would authorize the expenditure of revenue received from the taxation of cigarettes for the reduction of the mortality rate for one or more of the five leading causes of death in each State. This provision is an incentive to non-tobacco growing States to push for the passage of the legislation. This takes unfair advantage of the tobacco growing States.

Tobacco increase the value of farmland. Burley tobacco increased the assessed value of farmland in Kentucky in 1977 by about $1.2 billion, which is about one-twelfth of the total farm real estate value in the State. Local governments in Kentucky depend to a great degree upon the revenue derived from the taxation of real property. Revenue from real proper taxes is a major source of funds for the operation of essential local governmental services, especially public schools. Any adverse economic impact from S. 3118 on the tobacco industry in Ken-

tucky would result in a reduction of services to the citizens in the rural areas.

The tobacco industry has been under continued attack for many years. It presently is a vital part of the farm economy in Kentucky. But even with the strong influence which the tobacco industry has on the farm economy of the State, the net farm income in Kentucky is less than $5,000 annually. This annual net farm income is below the poverty level set by the Federal Government. The tax which this legislation imposes on tobacco would further reduce an already subpar farm income. I am strongly opposed to the legislation and would call on your committee to exert its efforts to defeat this unfair legislation.

Senator FORD. Thank you very much, Don. This is a good statement.

There's something going on that I wish people would understand. The free enterprise system is at work. In that free enterprise system you see the major tobacco companies in a fight among themselves to have a lower tar and nicotine cigarette. I saw in the statewide newspaper yesterday a full-page ad of a new cigarette out now by one of the Kentucky producers. It was a light and low tar and nicotine cigarette, and yet they are still trying to regulate a business that is doing its job without interference from "Big Brother."

You mentioned that you serve as a member of the tobacco research center as it related to smoking and health. Not many people realize that the consumer in Kentucky pays a half a cent a pack of cigarettes, which you are very aware of, and we collect roughly $3.5 to $4 million a year, which we are putting into research and we are not asking the Federal Government for a dime.

So it seems to me that those who would impose these hardships on tobacco don't understand what we are already doing and what the industry is already doing. As a member of the research board, I think you realize the importance of research being conducted here in Kentucky. Can you explain for the record the work being accomplished by the Kentucky Tobacco Research Board?

Mr. BLANDFORD. I would be glad to. We are looking at the tobacco-health area with an eye toward determining, first, if indeed smoking does cause health problems. This has not been determined to our satisfaction.

We go a step farther in that if we do determine that there are health hazards connected with smoking tobacco, to try to find out what in the tobacco plant or what ingredient is causing the health problem.

We would then try to isolate that and try to grow a tobacco product without the ingredient that was causing the health problem and try to offer people a product that they could smoke and they could enjoy without having an effect on their health.

We think this is certainly the responsible approach as opposed to putting an arbitrary tax on an industry which is already overburdened.

So Kentucky is aware of its responsibility in producing the tobacco. We also realize that there could be some health hazards and we are trying to solve them in what we call a responsible manner.

Senator FORD. I believe the head of the research group is Dr. Wyatt.

Mr. BLANDFORD. A very, very capable and intelligent man.

Senator FORD. And he's recognized not only in this country but throughout the world as one of the better individuals in the area of

research, so it isn't just something that they put together to spend money. They are really doing an excellent job as I understand it.

Mr. BLANDFORD. In fact, the Federal Government has sublet some of its research to us at the university and we are coordinating it with other States so we don't have duplicative research. We have got an excellent program and it seems to be working real well and we have come through with some things we think are making some progress.

Senator FORD. Don, with relationship to the farmer and to tobacco, we fail to take into consideration, I think, the value of tobacco in the assessment or appraisal of land. I understand there used to be a figure of about $5,000 an acre and now they're taking a figure somewhere in the neighborhood of $3 a pound in the assessment of farmland.

In your experience in the legislature, if this was eliminated, what kind of revenue would have to be produced or where could you get your additional revenue that's now going to counties and coming on into State government?

Mr. BLANDFORD. I really don't know. Of course, it would take a tremendous amount of land to grow another product which would have the same revenue implications that tobacco does. An acre of soybeans, for instance, may be worth $200, where an acre of tobacco is worth $2,000. It would take a tremendous amount of property and, of course, in Kentucky real property is what carries the local schools on the local level and without the revenue from tobacco increasing the assessment on farmland I don't know where we would replace it. I don't have an answer to that.

Senator FORD. The experts that we have talked with say that if the language in S. 3118 goes into effect—that means it's passed and signed into law—and we have a 5 to 50 cents additional tax per package of cigarettes, and if you take the mean of roughly 25 cents, that tax will reduce the consumption of tobacco. They figure that 25 cents would reduce the consumption of tobacco by about 30 percent.

This means a loss to the farm families in Kentucky of roughly $175 million annually. It also results then in the reduction of the value of the land. The results from that would be that less income would be turned over. Some say that every time you have a dollar it turns over three times in the community—others say five, the chamber of commerce says seven. So we will take a figure somewhere in between. But when it turns over in the community that's a multiplier that's very effective. So you take three times $175 million and you can see the damage just an additional 25 cents or half that amount would cause if this type of legislation went into effect.

Mr. BLANDFORD. Of course, even a giant oak tree will fall if you whittle it long enough, and I think that's what has happened.

Senator FORD. The power to tax is the power to destroy. That's exactly what you're saying.

Mr. BLANDFORD. Right.

Senator FORD. So I think the tax proposal here is an opportunity to tax and to destroy. I made this statement earlier—it's a quote from another Senator from one of our Southern States, Fritz Hollings. Fritz says the rich folks are trying to take all this away from us but the rich folks have a yacht and they can go out and relax and take all the strains of the day away or they have enough money to

hire a psychiatrist to take the strains of life away. The only thing poor folks have is a rocking chair and cigarettes. Now they're trying to take the cigarette away. So that seems to be the intent of S. 3118.

Mr. BLANDFORD. The rocking chair may be next.

Senator FORD. That's right. So we've got to stop them.

Don, I appreciate your testimony this morning. Can you think of anything else you would like to add to this? Your full statement and your answers will be included in the record.

Mayor Bernie Steen of Bowling Green is our next witness and Mayor, if you would come forward we would be delighted to listen to your testimony.

STATEMENT OF HON. BERNIE STEEN, MAYOR, BOWLING GREEN, KY.

Mr. STEEN. Thank you, Senator Ford.

First of all, let me say welcome to Bowling Green. We are glad you chose this area to hold this hearing and I would like to approach my prepared statement with a couple comments.

First of all, you might wonder why a city dude is up here talking about tobacco and its effect on us locally. First of all, I haven't always been this city dude. I grew up on a farm and tobacco was our money crop. Tobacco meant Christmas. Tobacco meant fall clothing or more fall clothing. Sometimes if we didn't have a good tobacco crop we relied on last years' clothes or summer clothes. And from those comments I would like to go to my prepared statement which I have several copies made and would like to have entered into the record, and I think copies have been distributed among the people at the hearing this morning and also for the media.

My testimony is premised upon experiences I have had in two phases of my life—as a child growing up on a farm dependent on tobacco income and as mayor of a community which is heavily dependent upon the tobacco industry.

In talking with many local business persons and statisticians about the tobacco industry's economic impact on our community, I have gathered some surprising information. In Warren County, approximately $13 million of $231 million total retail sales are in tobacco (not including manufactured products). The crop, therefore, represents over 5.6 percent of total retail sales in the community.

It is estimated that about $3 million in wages are paid in Warren County annually in the areas of tobacco growing and processing. To use our chamber of commerce's estimates regarding turnover of wages to produce other businesses and growth, we might assume this $3 million in wages would result in about $1.5 million in bank deposits, support 3 retail establishments, support 200 nonmanufacturing employees, and bring about $1.7 million in other retail sales. So the impact of the tobacco wages alone is significant in this community.

The farmers in Warren County are heavily dependent on tobacco as their cash crop. The timing of the tobacco sales is important to these families to allow for purchases of fall and winter clothing, payment of debts accumulated during the time no cash is coming in from other crops or sources, and of course to finance holiday celebrations and purchases. If this cash source were to be significantly eroded,

many of these families would have to rely on charity for their basic needs, as the land used for tobacco could not be as profitably used for other crops.

The Warren County extension office provideed the following information on other economic impacts of the tobacco production process.

In producing the crop, farmers in Warren County will spend $385,000 for fertilizer; $48,000 for pesticides and chemicals; $119,000 for fuel; $102,000 for machinery repair; $632,000 for machinery; $742,000 for tobacco barns, for a total of $2,837,000 in an average year.

Another important factor that burley tobacco contributes to the economy is increasing the value of the land and the tax base for support of local government services. It is estimated that farms are increased $3 for each pound of tobacco base they have. With a county tobacco base of 6,022,000 pounds, this means an added land value of $18.1 million.

A manager with a local tobacco processing operation indicated to me that if the tobacco business were to decrease significantly, this would cripple the economy of the State. He suggested that the Government should direct its attention to research toward safe smoking rather than trying to eliminate smoking.

A local bank executive stated that legislation which had the effect of seriously weakening the tobacco industry would have "a disastrous effect, it would be a slap in the face for our farmers, who depend on tobacco for their livelihood."

Those who spoke with me indicated that any additional taxes on cigarettes could adversely affect consumption and therefore have a devastating ripple effect throughout the entire tobacco industry.

I have tried in this testimony to be objective in approaching the question of the potential economic impact of this proposed legislation on the Bowling Green-Warren County community. I understand that the subcommittee will be receiving substantial statistical information on the statewide impact of the industry from the State Agriculture Department, so I have not tried to address those issues. I would summarize by stating that the tobacco industry has been very beneficial to the economy of Kentucky, and the proposed legislation should be carefully weighed in light of the potential economic effects it could have.

I would like to conclude my prepared statement with another comment also. I reject the idea that State-financed and federally-financed institutions are going to set aside certain areas to discriminate against those who use tobacco for smoking purposes. I also don't like the idea of boarding a plane and being shoved into the back end where carbon monoxide has a worse effect than even cigarette smoking and yet I pay the same price. There are certain perfumes and colognes that people wear that are more offensive to me than tobacco smoke.

With that I conclude my statement and leave myself open to questions.

Senator FORD. Thank you very much, Mr. Mayor. I think you made an excellent statement this morning regarding tobacco income and its influence on Bowling Green and the Warren County area. I'm pleased this is the kind of testimony you have brought to us today because it is exactly what we need. You and the other previous witnesses have emphasized the importance of tobacco crops to business and employment.

What would be the impact on your city if widespread unemployment resulted from implementation of legislation similar to S. 3118?

Mr. STEEN. Well, any time we have unemployment, naturally my mind tends to wonder and I'm afraid we wouldn't be able to hire enough police to control robberies and arson and these kinds of crimes. This always creates severe problems when we have unemployment. On the other hand, we might qualify for public works.

Senator FORD. That means "Big Brother" again, but there's a lot of money proposed in this legislation to set up another bureaucracy to hire more bureaucrats to come out and look over industry's shoulder to be sure you're following the rules and regulations—more regulations, more bureaucrats and more harassment.

Mr. STEEN. And more tax dollars that we won't have the opportunity to spend here locally.

Senator FORD. Which would be used in other more beneficial ways. You used a statement that flashed a light to me. It happens in the Ford family you know. But that light was this. You said Christmas purchasing and tobacco sales come at the time when other crops are not necessarily coming on and there's no other money coming in. Tobacco finances school clothing, Christmas celebrations, paying off of notes and loans that might be on the tobacco crop, and that means tobacco is the backbone of the financial part of a small farm family because they can go to the bank and borrow money on the tobacco and do the other related things that need to be done.

What about buyers leaving here and going to the Northeast if tobacco would go down the drain? How much purchasing would we do or would Bowling Green and Warren County do in the markets in the East—say for fall clothing and Christmas celebrations and so forth?

Mr. STEEN. It would affect that market quite considerably because many of them, as Senator Miller mentioned earlier—many of our small businesses strictly rely on this Christmas trade or the fall trade which comes from the tobacco industry or from the tobacco sales.

Senator FORD. Well, you mean they wouldn't be traveling to Boston in the spring to buy for that winter and they wouldn't be going to New York or other communities? Your buyers would not be leaving here to purchase as they would under present circumstances?

Mr. STEEN. Not like they would under the present circumstances because they can't afford to carry a large inventory which cannot be sold.

Senator FORD. You note that the area county tobacco base means an increased or added land value of about $18.1 million as a result of the acreage allotments. I think that's what you said in your testimony. What would be the alternate source of revenue if tobacco was not part of the life style of the community?

Mr. STEEN. Well, of course, you realize several years ago Kentucky had to tax their own tobacco and there was a freeze on property taxes. The city of Bowling Green, which had very little tobacco base—however, there is some—we are allowed to use an occupational license tax and this certainly would have to mean an increase in taxes someplace.

Senator FORD. So what you're saying is it would be a loss of revenue that would have to be replaced from another source. So you have a lack of income, reduction of revenue, reduction of taxes. That has a very, very strong rippling effect.

Mr. STEEN. It would really be hard, Senator Ford, to weigh the actual economic effect that this would have because there are so many

related things that are tied in with the tobacco industry and I just mentioned a very few of them in my prepared statement.

Senator FORD. Can you think of a business that is not impacted by the sale of tobacco or raising of tobacco?

Mr. STEEN. No, sir, I don't believe so: not in this area. I don't believe there would be one business that wouldn't be affected from the use of or the sale of or the growing of tobacco.

Senator FORD. But I think you listed the fertilizers, the fuel, the equipment, the repair and you didn't get into the purchasing power downtown in small businesses.

Mr. STEEN. No, sir. I only mentioned those that are directly related.

Senator FORD. Mayor, I appreciate you coming today and I appreciate the hospitality that Bowling Green has displayed to our committee. We have been here since last night and we want you to know that we appreciate it very, very much and we are glad we came to Bowling Green to get this information from this area to take back to Washington. Thank you very much.

Mr. STEEN. Thank you. We're glad to have you.

Senator FORD. I think this would be a good time to insert in the record a news press release from the Agricultural Stabilization and Conservation Service office in Kentucky which announced the 1978 tobacco loan program. I think it sets out very well the price support rates approved for the burley tobacco, the grade loan rates proposed for burley tobacco, the grade and the loan rate for each of the various areas. We also have the 1978 final quota summary of burley tobacco adjustments and new growers included for each of the 120 counties, the number of farms, the basic quota, and the effective quota.

One thing I want to bring to your attention too, if you look at Pulaski County, Pulaski County doesn't seem like a tobacco county. It's down in the southeastern part of Kentucky but the number of tobacco allotments in Pulaski County alone is 4,032. That means there are a lot of small allotments in Pulaski County and it indicates what tobacco can do for that county. The basic quota is 6,520,274 pounds. The effective quota would be 7,335,554. So you can see how important tobacco is to a county like Pulaski. You might think in Warren or Fayette or other counties it would have a greater impact but there's the impact on Pulaski County.

Warren County has 3,242 allotments whereas Pulaski County has over 4,000. They are mighty small and I would like that for the record. That information is compiled by our state A.S.C.S. office and I'm grateful to them for putting all of it together.

[The article follows:]

USDA ANNOUNCES 1978 TOBACCO LOAN PROGRAM

WASHINGTON, June 30—An increase of about 6.3 percent in price support levels for eligible kinds of tobacco was announced today by Stewart Smith, Acting Administrator of the Agricultural Stabilization and Conservation Service (ASCS).

The support levels, by kind, and comparable 1977 rates are as follows:

[In cents per pound]

Kind	1978 crop	1977 crop
Burley, type 31	124.7	117.3
Kentucky-Tennessee Fire-cured, types 22-23	84.6	79.5
Dark Air-cured, types 35-36	75.8	70.7

As in the past, price support will be made available to eligible producers through loans made to producer associations under contracts with the Commodity Credit Corporation. To be eligible, producers must certify that they have not used restricted pesticides (DDT, TDE, Toxaphine and Endrin) on their tobacco.

Producers of the kinds of tobacco under acreage allotments or acreage-poundage marketing quotas must certify their planted acreage.

Associations to which loans are made are authorized to withhold one cent per pounds from the advance to producers to help defray association administration costs.

Price Support and Grades Approved for United Burley Tobacco

Washington, August 10—Burley tobacco grade standards and price support regulations were changed today to make grading and price support available for a limited amount of 1978-crop burley that will be sold in united bales as a crop marketing experiment.

Previously, united burley was classified "No-G" (No-Grade) and was ineligible for government price support.

Secretary of Agriculture Bob Bergland said the changes are substantially as proposed July 6, and that grade loan rates and grade standards for united tobacco will be the same as for tied bundles. This is in line with most of the comments received in response to the proposal, Bergland said.

Under the changes, producers interested in marketing united burley this year may apply in September at their county Agricultural Stabilization and Conservation Service (ASCS) offices. These producers must certify that all bales to be delivered for price support and official grading meet the following specifications:

(1) All tobacco in all bales offered for sale as a single lot will be of similar quality.

(2) The tobacco will be stalk-cured.

(3) The bale will not contain foreign matter.

(4) The tobacco will not be nested (nesting is the concealing of foreign material or inferior tobacco inside the bale.)

Producers must comply with filed certification in order to be eligible for grading and price support on baled tobacco and for price support on any tobacco produced on their farms. Warehouse operators will be required to open a representative bale in each lot of tobacco for inspection by a department grader.

Other details concerning price support for united burley tobacco will be published soon in the Federal Register and will be available at appropriate ASCS county offices.

Grade Loan Rates Proposed for 1978-Crop Burley Tobacco

Washington, September 14—Proposed loan rates for 1978-crop burley tobacco range from 83 cents to $1.39 per pound and reflect an average support of $124.70 per hundredweight—7.4 cents per pound above the 1977 level. The loan rates for eligible tobacco packed in bales will be the same as the rates for tobacco tied in hands (a hand consists of approximately 20 tobacco leaves made into a bundle and tide with a tobacco leaf).

As in the past, no loans will be available on any tobacco graded NO–G (No Grade), W (Wet), U (Unsound) or scrap, according to Ray Fitzgerald, Administrator of the Agricultural Stabilization and Conservation Service (ASCS). Marketings of these grades, however, will be charged against the quotas for the farms on which they were produced, Mr. Fitzgerald said.

The cooperative associations through which advances are made available will be authorized to deduct one cent per pound to apply against overhead costs.

Comments regarding the proposed rates will be considered if submitted in writing by November 20 to the Acting Director, Price Support and Loan Division. ASCS, U.S. Department of Agriculture, P.O. Box 2415, Washington, D.C. 20013. The comments will be available for public inspection in the Office of the Acting Director, Room 3741 South Building, during regular business hours, 8:15 A.M. to 4:45 P.M.

PROPOSED LOAN RATE FOR EACH GRADE

[In cents per pound, farm sales weight]

Grade	Loan rate	Grade	Loan rate	Grade	Loan rate
B1F	139	B3GR	113	C1F	139
B2F	137	B4GR	111	C2F	137
B3F	135	B5GR	108	C3F	135
B4F	132			C4F	132
B5F	128	T3F	131	C5F	128
		T4F	125		
B1FR	138	T5F	118	C3K	124
B2FR	136			C4K	120
B3FR	134	T3FR	128	C5K	114
B4FR	131	T4FR	124		
B5FR	127	T5FR	115	C3M	130
				C4M	128
B1R	135	T3R	122	C5M	119
B2R	133	T4R	119		
B3R	131	T5R	113	C3V	126
B4R	128			C4V	123
B5R	122	T4D	110	C5V	117
		T5D	106		
B4D	115			C4G	113
B5D	110	T4K	109	C5G	106
		T5K	105		
R3K	125			X1L	138
B4K	123	T4VF	118	X2L	136
B5K	117	T5VF	111	X3L	131
				X4L	129
B3M	129	T4VR	111	X5L	124
B4M	123	T5VR	107		
B5M	113			X1F	138
		T4GF	106	X2F	136
B3VF	130	T5GF	102	X3F	134
B4VF	124			X4F	123
B5VF	121	T4GR	104	X5F	129
		T5GR	99		
R3VR	125			X4M	124
B4VR	120	C1L	139	X5M	112
B5VR	116	C2L	137		
		C3L	135	X4G	111
B3GF	118	C4L	132	X5G	103
B4GF	116	C5L	128		
B5GF	112			N1F	100
		M3FR	112		
M1F	116	M4FR	110	N1R	98
M2F	115	M5FR	106	N2R	92
M3F	114				
M4F	112	N1L	104	N1G	91
M5F	110	N2L	97	N2G	83

1978 FINAL QUOTA SUMMARY—BURLEY TOBACCO

[Adjustments and new growers included]

Country	Farms	Basic quota	Effective quota
Adair	2,552	4,478,505	4,708,113
Allen	2,020	3,358,025	3,466,545
Anderson	1,233	3,251,665	3,217,701
Ballard	1,063	2,591,808	2,911,461
Barren	3,567	11,702,210	11,661,397
Bath	1,187	6,083,140	5,642,536
Bell	38	25,221	44,202
Boone	1,696	3,012,354	2,953,735
Bourbon	1,329	11,243,200	10,878,021
Boyd	59	72,458	104,705
Boyle	1,146	4,431,139	4,366,929
Bracken	1,033	6,227,994	5,979,264
Breathitt	1,020	1,273,670	1,610,992
Breckinridge	2,100	6,997,158	6,699,232
Bullitt	883	1,296,345	1,273,670
Butler	771	761,373	946,896
Caldwell	901	1,067,043	1,338,307
Calloway	668	491,388	584,077
Campbell	540	683,335	744,058
Carlisle	453	489,713	783,522
Carroll	598	3,657,760	3,468,979
Carter	1,762	3,214,512	3,457,684
Casey	2,626	5,669,737	5,996,647
Christian	2,349	5,950,481	6,308,297
Clark	1,587	6,949,293	6,612,579
Clay	1,510	2,649,360	3,098,810
Clinton	1,523	2,226,649	2,250,201
Crittenden	35	29,259	54,805
Cumberland	1,176	2,436,816	2,493,079
Daviess	2,439	6,718,154	7,815,793
Edmonson	1,121	1,742,489	1,828,178
Elliott	1,100	2,011,527	2,107,319
Estill	922	1,511,498	1,613,181
Fayette	1,460	11,771,263	11,750,340
Fleming	1,703	7,208,132	6,785,940
Floyd	36	18,841	32,337
Franklin	1,210	5,526,812	5,621,899
Fulton	3	4,120	6,753
Gallatin	535	2,108,234	2,037,241
Garrard	1,420	7,127,844	6,963,247
Grant	1,719	5,586,945	5,497,907
Graves	1,050	808,587	1,111,667
Grayson	2,264	3,754,171	3,670,806
Green	1,776	5,762,461	5,771,150
Greenup	1,111	1,887,318	2,017,347
Hancock	835	2,223,402	2,495,888
Hardin	2,653	4,233,730	4,281,430
Harlan	9	5,629	8,703
Harrison	1,612	9,005,390	8,512,511
Hart	2,233	8,470,393	8,134,379
Henderson	674	787,405	1,156,648
Henry	1,459	9,134,764	8,999,971
Hickman	62	52,172	60,365
Hopkins	409	371,002	708,157
Jackson	1,705	2,995,594	3,255,290
Jefferson	518	635,419	728,639
Jessamine	1,397	6,659,073	6,430,654
Johnson	725	735,270	1,113,566
Kenton	1,002	1,403,228	1,437,747

1978 FINAL QUOTA SUMMARY—BURLEY TOBACCO—Continued

[Adjustments and new growers included]

unty	Farms	Basic quota	Effective quota
	13	5, 230	27, 382
	955	1, 019, 307	1, 335, 787
	1, 355	3, 750, 145	3, 865, 288
	2, 893	4, 324, 000	4, 751, 309
on	741	734, 348	935, 582
	637	525, 858	690, 885
	144	143, 283	274, 921
	12	9, 942	20, 256
	1, 422	4, 448, 955	4, 435, 041
	2, 454	6, 309, 429	6, 337, 834
on	17	16, 933	29, 283
	2, 122	3, 341, 281	3, 777, 749
	358	439, 506	575, 357
ton	900	1, 102, 135	1, 310, 137
ty	99	67, 296	83, 677
	1, 016	1, 424, 354	1, 787, 590
	2, 208	10, 396, 543	10, 136, 688
	1, 445	1, 743, 674	2, 125, 745
	1, 426	5, 263, 706	5, 179, 446
	646	412, 380	682, 856
	1, 172	8, 486, 471	8, 137, 615
	1, 244	1, 722, 042	1, 752, 042
	741	1, 430, 020	1, 390, 262
	1, 671	6, 569, 714	6, 415, 502
	1, 617	5, 247, 993	5, 128, 275
	1, 790	3, 560, 634	3, 550, 392
mery	1, 207	6, 261, 888	5, 879, 948
	1, 748	3, 864, 749	3, 864, 945
berg	792	935, 423	1, 327, 100
	1, 821	4, 456, 492	4, 308, 266
	909	5, 373, 042	5, 020, 716
	1, 891	2, 566, 003	3, 251, 983
	624	1, 477, 756	1, 635, 466
	1, 373	7, 644, 735	7, 460, 976
	1, 132	1, 808, 973	1, 992, 568
on	1, 448	4, 842, 753	4, 731, 461
	111	82, 092	141, 006
	656	976, 063	1, 041, 389
	4, 032	6, 520, 274	7, 335, 554
on	456	2, 424, 599	2, 312, 397
tle	1, 587	3, 095, 368	3, 299, 716
	985	1, 563, 019	1, 554, 630
	2, 064	3, 260, 764	3, 466, 298
	1, 562	10, 039, 461	9, 520, 540
	2, 228	10, 980, 264	10, 704, 700
	1, 135	1, 970, 370	2, 124, 002
	888	4, 084, 013	3, 794, 276
	1, 758	4, 823, 247	5, 298, 089
	1, 249	2, 499, 614	2, 785, 770
	853	1, 593, 105	1, 815, 560
	785	3, 665, 637	3, 451, 580
	18	13, 790	23, 263
	3, 242	5, 826, 449	6, 222, 224
ton	1, 511	6, 612, 431	6, 332, 008
	1, 912	2, 855, 027	2, 933, 526
	358	312, 099	523, 412
	640	572, 652	866, 645
	975	1, 974, 749	2, 102, 061
d	1, 066	10, 101, 459	9, 807, 522
otal	144, 741	409, 591, 888	416, 454, 755

1977 FINAL QUOTA SUMMARY AND TOTAL MARKETINGS—BURLEY TOBACCO

[Adjustments and new growers included]

County	Farms	Basic quota	Effective quota	Total Marketings
Adair	2,558	4,633,261	4,535,395	4,299,650
Allen	1,989	3,487,447	3,538,019	3,420,365
Anderson	1,164	3,377,872	3,482,019	3,472,661
Ballard	1,075	2,683,353	2,987,041	2,628,551
Barren	3,523	12,191,035	11,567,820	11,456,572
Bath	1,159	6,316,598	5,875,599	6,323,120
Bell	40	26,817	45,845	14,174
Boone	1,612	3,114,680	3,157,025	3,172,524
Bourbon	1,238	11,682,723	11,673,675	11,975,153
Boyd	58	70,760	103,670	53,048
Boyle	1,107	4,609,431	4,407,567	4,450,771
Bracken	1,029	6,443,976	6,199,792	6,448,164
Breathitt	1,015	1,323,192	1,472,310	1,091,801
Breckinridge	2,078	7,243,130	6,971,980	7,060,005
Bullitt	855	1,343,444	1,420,908	1,429,682
Butler	782	797,666	974,997	765,670
Caldwell	927	1,101,550	1,388,752	1,077,252
Calloway	699	508,218	622,648	500,173
Campbell	522	703,412	721,117	655,802
Carlisle	457	507,028	727,691	421,391
Carroll	602	3,796,957	3,653,745	3,823,022
Carter	1,745	3,326,335	3,441,961	3,213,853
Casey	2,585	5,858,407	5,584,445	5,241,234
Christian	2,347	6,166,634	6,319,680	5,916,425
Clark	1,479	7,199,005	7,258,480	7,577,071
Clay	1,511	2,766,918	2,736,613	2,239,346
Clinton	1,541	2,302,435	2,278,669	2,237,885
Crittenden	34	30,236	51,941	10,814
Cumberland	1,147	2,505,500	2,535,440	2,481,099
Daviess	2,432	6,951,989	7,167,998	6,018,182
Edmonson	1,106	1,794,088	1,763,712	1,685,807
Elliott	1,101	2,081,432	2,101,270	2,005,962
Estill	903	1,560,491	1,553,776	1,436,688
Fayette	1,428	12,218,959	13,180,767	13,083,370
Fleming	1,678	7,504,581	7,237,266	7,624,230
Floyd	37	18,799	32,818	8,158
Franklin	1,149	5,706,556	5,796,575	5,702,935
Fulton	3	4,264	5,717	1,786
Gallatin	515	2,163,945	2,084,253	2,168,922
Garrard	1,372	7,377,196	7,014,899	7,173,591
Grant	1,617	5,785,743	5,576,609	5,674,935
Graves	1,068	835,292	1,123,027	746,177
Grayson	2,231	3,883,014	3,686,345	3,748,019
Green	1,758	5,966,430	5,576,015	5,559,563
Greenup	1,105	1,959,570	1,972,299	1,811,451
Hancock	825	2,326,379	2,400,332	2,072,859
Hardin	2,503	4,378,629	4,530,492	4,428,877
Harlan	11	5,916	9,807	967
Harrison	1,579	9,322,762	8,696,149	9,166,294
Hart	2,250	8,761,518	8,212,000	8,546,901
Henderson	675	819,126	1,181,025	682,476
Henry	1,404	9,474,409	9,247,616	9,273,951
Hickman	65	52,649	79,823	52,652
Hopkins	408	385,433	694,570	167,532
Jackson	1,704	3,096,916	3,025,776	2,765,065
Jefferson	456	662,277	792,060	653,376
Jessamine	1,346	6,855,629	6,953,132	6,863,776
Johnson	735	766,742	1,079,199	612,091
Kenton	959	1,458,737	1,514,589	1,468,792
Knott	13	5,389	10,193	516

1977 FINAL QUOTA SUMMARY AND TOTAL MARKETINGS—BURLEY TOBACCO

[Adjustments and new growers included]

County	Farms	Basic quota	Effective quota	Total Marketings
Knox	957	1,055,854	1,162,740	791,769
LaRue	1,392	3,197,570	3,075,463	3,137,584
Laurel	2,862	4,457,490	4,510,924	4,007,408
Lawrence	736	760,366	946,513	708,913
Lee	626	645,698	650,480	571,396
Leslie	148	156,391	256,000	61,976
Letcher	12	10,314	18,704	644
Lewis	1,411	4,612,985	4,435,745	4,435,708
Lincoln	2,398	6,548,202	6,178,941	6,132,467
Livingston	19	16,943	28,531	7,332
Logan	2,136	3,464,017	3,665,484	3,174,577
Lyon	366	456,481	576,149	424,050
McCracken	894	1,140,389	1,374,114	1,138,133
McCreary	95	69,649	88,696	67,984
McLean	1,022	1,478,359	1,734,954	1,342,945
Madison	2,152	10,762,340	10,187,110	10,397,397
Magoffin	1,423	1,801,365	2,074,766	1,667,158
Marion	1,420	5,455,327	5,060,721	5,108,018
Marshall	646	428,096	740,947	357,628
Mason	1,172	8,763,473	8,420,460	8,772,725
Meade	1,176	1,771,150	1,921,307	1,897,216
Menifee	734	1,478,564	1,401,537	1,449,151
Mercer	1,610	6,765,644	6,708,913	6,894,056
Metcalfe	1,587	5,432,507	5,183,880	5,296,592
Monroe	1,797	3,694,892	3,557,776	3,545,968
Montgomery	1,228	6,469,739	6,216,178	6,530,124
Morgan	1,739	4,003,820	3,856,951	3,842,537
Muhlenberg	808	969,590	1,279,054	775,603
Nelson	1,672	4,574,559	4,575,047	4,720,530
Nicholas	878	5,517,927	5,311,455	5,684,429
Ohio	1,911	2,654,884	2,978,355	2,244,771
Oldham	580	1,548,288	1,753,735	1,553,989
Owen	1,356	7,966,000	7,648,751	7,762,688
Owsley	1,136	1,873,037	1,878,813	1,687,326
Pendleton	1,398	4,997,317	4,881,705	5,001,217
Perry	112	84,975	136,215	52,490
Powell	640	1,018,243	1,082,868	996,640
Pulaski	4,014	6,755,703	6,928,861	6,064,432
Robertson	446	2,493,119	2,382,288	2,502,171
Rockcastle	1,494	3,207,638	3,140,218	2,918,531
Rowan	960	1,618,831	1,580,188	1,583,749
Russell	2,026	3,373,369	3,425,853	3,200,033
Scott	1,472	10,373,511	9,937,134	10,037,216
Shelby	2,094	11,324,598	11,067,313	11,325,348
Simpson	1,165	2,042,370	2,109,316	1,941,852
Spencer	837	4,243,063	4,158,959	4,413,667
Taylor	1,749	4,979,344	4,742,129	4,276,759
Todd	1,252	2,584,146	2,719,780	2,409,566
Trigg	872	1,645,122	1,742,313	1,513,672
Trimble	764	3,790,066	3,593,556	3,807,898
Union	21	16,741	30,339	9,442
Warren	3,157	6,021,733	6,104,089	5,671,139
Washington	1,493	6,850,252	6,399,468	6,668,701
Wayne	1,902	2,956,294	3,016,832	2,924,489
Webster	363	322,211	548,015	187,025
Whitley	639	596,190	815,248	448,661
Wolfe	961	2,034,745	2,036,101	1,914,259
Woodford	1,015	10,505,133	10,355,610	10,582,624
Total	142,304	424,139,554	422,432,543	411,305,462

BURLEY TOBACCO SALES

The average market price received by Kentucky burley tobacco farmers was $121.87 per hundred weight times (×) 411,305,462 pounds equals (=) $501,257,966.50 gross income.

DARK AIR CURED SALES

Based on the average market price received by the dark air cured tobacco farmers of $116.87 per hundred weight times (×) 16,574,444 pounds equals (=) $19,370,552.70 gross income.

DARK FIRE CURED SALES

Based on the average market price received by the dark fire cured tobacco farmers of $142.36 per hundred weight times (×) 19,740,244 pounds equals (=) $28,102,211.35 gross income.

KENTUCKY NOTICE TB-256—UNTIED BALED BURLEY REPORT

County	Number of 176's	Total pounds approved	County	Number of 176's	Total pounds approved
Adair	17	93,714	Larue	25	145,979
Allen	5	17,121	Laurel	41	175,169
Anderson	84	160,062	Lawrence	4	6,000
Ballard	20	107,401	Lee	1	2,595
Barren	13	43,034	Leslie	0	0
Bath	41	281,935	Letcher	0	0
Bell	0	0	Lewis	11	45,388
Boone	1	1,277	Lincoln	52	288,978
Bourbon	67	543,909	Livingston	1	565
Boyd	0	0	Logan	18	54,196
Boyle	70	218,448	Lyon	5	28,832
Bracken	73	298,599	McCracken	17	6,656
Breathitt	0	0	McCreary	0	0
Breckenridge	24	113,824	McLean	17	52,858
Bullitt	25	64,399	Madison	87	506,596
Butler	8	11,428	Magoffin	11	26,683
Caldwell	16	60,782	Marion	62	264,993
Calloway	29	35,754	Marshall	8	26,202
Campbell	1	1,153	Martin		
Carlisle	1	1,768	Mason	72	406,535
Carroll	7	173,658	Meade	29	94,928
Carter	8	65,592	Menifee	4	16,750
Casey	17	35,266	Mercer	46	298,315
Christian	79	313,292	Metcalfe	1	30,338
Clark	83	332,356	Monroe	7	19,472
Clay	35	154,939	Montgomery	41	293,998
Clinton	12	41,856	Morgan	2	5,824
Crittenden	0	0	Muhlenberg	0	0
Cumberland	19	83,873	Nelson	33	165,209
Daviess	34	356,917	Nicholas	23	160,537
Edmonson	8	45,278	Ohio	11	43,323
Elliott	2	8,164	Oldham	30	81,866
Estill	8	67,158	Owen	52	365,809
Fayette	131	569,312	Owsley	1	4,994
Fleming	67	339,175	Pendleton	6	137,065
Floyd	0	0	Perry	1	1,648
Franklin	138	281,027	Pike		
Fulton	0	0	Powell	5	16,865
Gallatin	14	101,955	Pulaski	23	126,130
Garrard	92	347,837	Robertson	36	97,575
Grant	17	180,566	Rockcastle	22	150,922
Graves	27	38,111	Rowan	3	4,500
Grayson	4	12,376	Russell	1	1,744
Green	20	178,426	Scott	176	474,237
Greenup	9	60,212	Shelby	207	535,313
Hancock	9	102,196	Simpson	19	76,352
Hardin	25	128,301	Spencer	23	135,277
Harlan	0	0	Taylor	12	81,481
Harrison	76	422,309	Todd	32	45,108
Hart	11	30,297	Trigg	51	90,735
Henderson	10	41,235	Trimble	14	59,205
Henry	85	449,390	Union	0	0
Hickman	2	5,000	Warren	23	122,879
Hopkins	0	0	Washington	25	236,890
Jackson	14	65,561	Wayne	5	7,500
Jefferson	6	30,979	Webster	1	1,662
Jessamine	80	292,889	Whitley	10	22,449
Johnson	2	3,000	Wolfe	1	9,977
Kenton	7	24,712	Woodford	101	488,507
Knott	0	0			
Knox	6	23,029	Total	3,168	14,061,461

Senator FORD. The next witness is William M. Kuegel, vice chairman, Governor's Council on Agriculture. I note here it says he's from Frankfort, but I know he's from Owensboro.

STATEMENT OF WILLIAM M. KUEGEL, VICE CHAIRMAN, GOVERNOR'S COUNCIL ON AGRICULTURE, OWENSBORO, KY.

Mr. KUEGEL. Senator Ford and members of the committee, I am certainly privileged that I appear here before this committee today. I am William Kuegel from Owensboro. I am a tobacco farmer and warehouseman and vice chairman of the Governor's Council on Agriculture.

As a farmer, agribusinessman and statewide spokesman for agriculture, I am violently opposed to any Federal legislation which would adversely affect the tobacco farmers in Kentucky or any of the other tobacco-producing States.

While Congressmen and others from States which do not produce tobacco can devote their time to the question of the health aspect of smoking, those of us in the States which produce tobacco must look at it from an economic standpoint.

Tobacco has been an important part of Kentucky's agricultural economy since settlement days, with settlers from Virginia bringing to the State the know-how for growing and curing the leaf. It did not take these settlers long to nearly catch up with Virginia growers and even in those early years Kentucky was the second leading producer of tobacco.

Tobacco at one time was actually used as legal tender having much more value than any money in circulation at the time.

The advent of white burley just after the Civil War even more firmly established Kentucky as a tobacco-producing State. It has for many years been the world's leading producer of burley and the second largest tobacco-producing State.

Agriculture has until recent years been the leading contributor to Kentucky's economy, providing in 1977 nearly $2 billion in gross receipts. Today agriculture is surpassed only by coal in its importance to the State's economy.

Since settlement days, tobacco has been the mainstay of Kentucky's agricultural economy. Presently, tobacco accounts for roughly 55 percent of receipts from crops and nearly one-third of total cash receipts from farm marketings.

Tobacco is a unique commodity. It is one of the few crops which can be raised successfully on small acreage. And, because of the marketing system which has been developed over a period of many years, and the existence of the price support program, it is the only crop where growers can annually be assured of making a profit.

This feature has caused tobacco to become the one stable factor in the life of the small farmer. The average acreage per burley quota in Kentucky is 1.31 acres. For Fire-cured, the average allotment is 2.09 acres, while the average allotment for Air-cured is .74 acres. So we are really talking about a small farmer.

Figures from the University of Kentucky, based on current yields and market prices, indicate that a burley grower could expect to gross approximately $3,120 an acre for his tobacco. If he uses family labor, he could expect to net $1,349 an acre on his crop.

Based on the same assumptions, a dark Air-cured tobacco grower could expect to gross $1,980 and net $1,346 for each acre of tobacco, while the dark fired tobacco grower would gross $1,980 and net $1,214 per acre.

This does not sound like a great deal of money. But what makes it significant is that this amount of money goes into the pockets of literally thousands of Kentuckians. Those who receive less than $10,000 a year in gross annual income from farming constitute 70 percent of the farming operations in the Commonwealth, and these are the people who basically have the small tobacco acreage.

They are the ones who must already rely most strongly on supplemental income from off-farm employment. They are the ones who would be hurt the worst by any major change in the growing and marketing of tobacco. Off-farm jobs in basically rural areas are not available—and they are not likely to become available—in sufficient quantities to replace lost tobacco income.

And, it would be virtually impossible for these people to switch to the farming of other agricultural crops. About the only choices open to them on limited acreage and with Kentucky's soil conditions might be some form of processed vegetables—peppers and cucumbers. While the net income from such production could in a given year be higher, because of the absence of a sustained market there is no assurance that a profit can be made year after year.

Only producers owning 100 acres or more would be able to profitably diversify into other areas of agriculture such as dairying, grain production or beef cattle production. These producers are by far in the minority. Even farmers with large acreage and diversified farms have, over the years, relied on tobacco to offset losses in other crops.

Beyond the question of returns to the producer, there is the question of labor involved in the production of tobacco. Tobacco is agriculture's most labor intensive crop. Kentucky's tobacco production furnishes employment equivalent to about 39,000 full-time jobs per year—about one-third of which is hired labor and about two-thirds family labor. Without tobacco, all of these people would have to find alternative employment. And, in many cases, individuals who work in tobacco are marginal employees—persons who, but for the jobs in tobacco, might be on welfare.

The economy of entire communities revolves around tobacco and has done so for 200 years. Bankers are willing to lend money based on a tobacco crop because of its stability. Merchants are willing to extend credit. Businesses are established to supply the needs of the tobacco grower; warehouses are built to sell his product. Redryers, processors and manufacturers of tobacco products have established facilities throughout the Commonwealth which would not be here if it weren't for tobacco production.

There are over 200 loose-leaf tobacco warehouses located in 30 market centers throughout the State, representing an investment of roughly $60 million. The State has 26 stemming and redrying facilities for processing tobacco for storage. These facilities employ an estimated 6,000 persons. Facilities for manufacturing cigarettes, pipe tobacco, cigars and chewing tobacco employ 20,000 people and provide $160 million in wage and salary income annually.

Both the Commonwealth of Kentucky and individual counties benefit greatly from tobacco in terms of tax dollars. Kentucky collects over $22 million annually in excise taxes from the sale of tobacco products. This is in addition to sales taxes and State and local property taxes collected on the farmland itself, the warehouses, the manufacturing plants and other facilities. Tobacco allotments have been estimated to increase the value of farmland at a rate of roughly $3 per pound of burley tobacco quota.

It has been estimated that the total economic impact of tobacco on Kentucky is about $2.5 billion. And in some way it touches the lives of virtually every Kentuckian.

Although most provisions of S. 3118 died with the end of the past session of Congress, there is no doubt in the minds of many Kentuckians that the question of placing oppressive taxes on tobacco products will be raised again. If it doesn't come in the next session of Congress, it will in the following session.

While such a tax would not wipe out the industry overnight, it would begin very shortly to divert the economic interests of tobacco manufacturing firms into acreas away from tobacco—and some of this has already taken place. Employment in these facilities would be substantially reduced, broadly affecting the economy of the cities where they are located. As this tax reduced the usage of tobacco products, many of these plants could be forced to close their doors entirely—their payrolls and tax revenues lost forever to the Commonwealth.

Purchase of tobacco would decline, forcing many families into financial ruin because other sources of revenue just aren't available. Many could find themselves forced to sell their property or become welfare recipients.

On the one hand, the Federal Government has placed much emphasis on stabilizing the economy and on jobs creation, particularly in the private sector. On the other hand, there is a growing movement in Washington to do away with an industry which has over the years played a major role in stabilizing the economy of a dozen or more States and provided jobs in 1½ million businesses involved in the tobacco trade.

We hope that the economic importance of the tobacco industry, not only to Kentucky, but to the Nation, will not be lost in the debate over the health-related issues involved in smoking. We believe that the ceonomic question is the major one and that the question of usage of tobacco products should be one of personal choice, based on educated weighing of the factors involved—not a decision forced upon the American people by taxation.

Thank you.

Senator FORD. Thank you, Bill, for a very fine statement.

As vice chairman of the Governor's Council on Agriculture, do you have any statewide figures that would lend themselves to what would be lost in Kentucky if the tobacco industry was eliminated or reduced significantly?

Mr. KUEGEL. I believe I had that in the statement.

Senator FORD. I wanted to get that figure in and emphasize it again if you can.

Mr. KUEGEL. Kentucky collects over $22 million annually in excise taxes from the sale of tobacco products.

I could give you a better example, Senator Ford, from our own local community. We sell on the Owensboro market 15 million pounds of tobacco, and that will bring in the neighborhood of $17 million, and this money comes into our community in a period of 6 to 8 weeks, and I don't think there is a business in Owensboro that would not tell you that tobacco has a tremendous impact on our local community—the paying of debts on land, purchasing of automobiles, clothing, many items which a farmer uses.

Senator FORD. Basically, as I asked the mayor awhile ago, can you think of any business in your area that would not be harmed by the loss of tobacco products?

Mr. KUEGEL. I don't know of one.

Senator FORD. You related in your statement to a substitute crop and you talked about the processed vegetables of peppers or cucumbers. I understand you get about $400 an acre for cucumbers. At least that was the rule of thumb awhile ago, and tobacco would bring—I think you used a University of Kentucky figure—$3,120 an acre.

So you have a figure for cucumbers if you have a good crop? If you have one yellow spot on it, you get docked.

Mr. KUEGEL. We have been in touch with Dr. Roberts at the University of Kentucky on that and some of them have done quite well in certain years and provided a market for it, but vegetables will not compare—no vegetable would compare to tobacco.

Senator FORD. Commissioner Harris testified yesterday that he had tried every feasible alternative on his farm to try to offset or see what would happen. He even went into vegetable gardening to sell in the Cincinnati area. And it wouldn't work for him. I think what we have here is a small percentage of land is used for a large income and there is no substitute known today that relates to the percentage of land used and the income for tobacco.

Mr. KUEGEL. No.

Senator FORD. There's no way to diversify. You also stated a few moments ago about tobacco as it related to paying off the mortgage, buying equipment, et cetera. Basically, what is the ability of the farmer to borrow money? Is it tobacco?

Mr. KUEGEL. I certainly think tobacco has a great input on the amount of money that you could borrow in a given year.

Senator FORD. Can you go to the bank and borrow money on corn, soybeans?

Mr. KUEGEL. Yes; but not to the degree that you can on tobacco. Some of the farmers in our area are grain producers. I do know they can borrow money, but for the average farmer tobacco is his mainstay.

Senator FORD. Kentucky has become an important grain and soybean producing State. Is there any way that we could maintain the present level of income with those two products?

Mr. KUEGEL. No; because you have so many areas in Kentucky not suitable for grain that grow tobacco. You mentioned Pulaski County with 6 million pounds in that county. They cannot grow grain there.

Senator FORD. The largest farm in Bell County, tillable farm, is 300 acres. I don't know what the largest tillable farm in Pulaski County is, but it can't be very large.

Let me compliment you and the Governor's Council on Agriculture for what they are attempting to do and I'm very pleased that you

could be here today to testify. Do you have anything else that you might have thought of while we were talking that you want to add for the record?

Mr. KUEGEL. I think one thing I would say, personally being involved in tobacco since I was born, tobacco to many families in the State of Kentucky is part of them. Many families in the State of Kentucky have come from tenant farmers to being able to own their own farms by virtue of tobacco income and tobacco, as mentioned in some testimony before me, is virtually a part of every Kentuckian and it affects every Kentuckian.

Senator FORD. Thank you very much and we appreciate you coming over this morning and being part of this hearing.

I would like to call on the next witness who is Robert T. Curtis, international vice president of the Tobacco Workers Union, and executive vice president of the Kentucky AFL–CIO, and we are delighted to have you with us this morning, Bobby, and you have got a very comprehensive statement for the committee and supporting documents. They will be included in the record in total and you may proceed with your testimony. We are delighted to have you here this morning.

STATEMENT OF ROBERT T. CURTIS, INTERNATIONAL VICE PRESIDENT, TOBACCO WORKERS UNION, AND EXECUTIVE VICE PRESIDENT, KENTUCKY AFL–CIO

Mr. CURTIS. Thank you, Senator Ford.

I am very pleased to have this opportunity to talk to you about the tobacco industry here in Kentucky and its economic impact on working men and women.

For the record, I am Robert T. Curtis, and I am the international representative for the Bakery, Confectionery, & Tobacco Workers International Union. I have been with the union in a full-time capacity since 1963.

I have been invited to talk briefly to members of the committee about the economic impact of the Kennedy tobacco bill on the tobacco labor force here in Kentucky. My remarks are based in part upon the material I have submitted to the committee.

The union I represent has approximately 9,500 members working in the tobacco industry in the Commonwealth. Primarily, they are engaged in the manufacture of cigarettes and other tobacco products at three plants in the Louisville area operated by Philip Morris U.S.A., Lorillard, and Brown & Williamson.

Let me get right to the point by saying that I am not an expert on the subject of tobacco and health.

But I am a workingman, one of thousands of Kentuckians who make a living in the tobacco industry. As a family man and the father of two children, anything that threatens the jobs of my fellow union members—and my family—is going to draw my immediate attention.

I am proud of my association with the tobacco industry, just as I am proud to be a Kentuckian. In my mind, the two are very closely linked in a partnership that has meant jobs and food on the table for thousands of people for many, many years.

From my vantage point, I tend to look upon the tobacco industry as it involves the manufacture of cigarettes. Yet I know that it means far more than manufacturing.

Here in western Kentucky, for example, we are in the heart of tobacco-growing country. Kentucky is the leading producer of burley tobacco in the Nation, and the second tobacco-producing State overall. In the broadest sense, tobacco in Kentucky means jobs from the field to the factory to the retailer, and finally, to the tax collector.

That's what I am most interested in—jobs.

I realize that members of this committee are always being given statistical information, and the material I have submitted contains important statistics about the size and scope of tobacco in the Commonwealth, as well as in other States.

My purpose today is to draw from this material a very basic conclusion: A lot of people—a lot of families—a lot of constituents depend upon tobacco for a living.

It's a point that often is forgotten.

Senator Ford, I just wish people who write laws and come up with new proposals to restrict tobacco in some way would realize this point. From where I sit, and with all due respect, it seems like a lot of legislation is prepared in Washington that sort of forgets people and ignores the workingman or woman.

That's what seems to be the trouble with the Kennedy tobacco bill. I'm sure the motives behind the legislation are good. But I don't think very much thought was given to the possible negative impact the law could have on the men and women whose livelihood depends on tobacco.

In Kentucky, we're talking about 103,000 farms producing tobacco on about 200,000 acres for sales last year of about $619 million. Many of those farms are family run, and if tobacco were to be restricted, we'd surely have more people coming into the cities—or moving elsewhere—trying to find new work.

We also have a large tobacco auction warehouse business in Kentucky, with perhaps several hundred or thousand workers. And in the manufacturing phase—with which I am most familiar—we have as I mentioned more than 9,500 people making tobacco products in three plants. In 1977, these people had a payroll of about $115 million.

In addition, more than 26,500 retail establishments in Kentucky sell tobacco products, generating about $277 million in sales.

Now I know taxes are on everyone's mind—especially on the minds of elected officials, if what I read about politics this year is correct. And tobacco purely and simply is a major source of tobacco tax revenue in Kentucky and elsewhere, directly from excise taxes and sales, and indirectly from taxes paid by the people and companies involved in the industry. Federal excise taxes on tobacco products were over $2.3 billion in 1977, and State tax collections were $3.6 billion. City and county taxes added nearly $125 million—for a total of almost $6 billion. For local governments here in the Commonwealth, tobacco tax collections amounted to $22 million in 1976.

I apologize for going into such detail. But as I said, tobacco in Kentucky means jobs, it means opportunity, it means tax revenues, and it means a way to make a good living.

I think you should consider something else, Mr. Chairman: How the presence of the tobacco industry has helped improve the quality of life

of the working people of Kentucky. For example, my former employer, Philip Morris, provides its workers with comprehensive health and dental benefits that are really substantial.

It makes you wonder—if these people were laid off because of forced cutbacks, where would they go? What would they do? Join the welfare rolls?

I'm as interested as the next guy in making sure that the product our union members make is not going to threaten anyone's health. Personally, I don't feel that the case has been made that tobacco causes the things it's been accused of, particularly when the accusations against the products raise more questions than they provide answers. But, again, I'm not an expert on that subject.

But as a union representative, I am concerned that when people start coming up with proposals that would restrict the tobacco industry, they also should give a lot of thought to the economic impact their ideas would have on jobs and on the security of families.

Speaking for my union, and for my family and the families of my friends and coworkers, Mr. Chairman, I hope that thought will be taken back to Washington. There are a lot of people out here who work in tobacco, and they deserve to be heard.

Thank you again, and I would be glad to answer any questions.

Senator FORD. Thank you, Bobby. You made a statement I thought was significant, and is basically what we are trying to do. What you said there is that all the testimony in Washington has been on health-related issues, emotional issues; and emotional issues are hard to fight. Dad always told me never to get into an argument with a crying woman or get into a school board race—both of them are emotional. I understand what he meant now. The older I get, the wiser he becomes.

With all due respect, it seems like a lot of legislation prepared in Washington forgets people and ignores the workingman and woman. Basically what we are trying to do now is show what this legislation would do to the economy of Kentucky, what it would do as it relates to jobs, opportunities, local revenue, and hopefully this message will be carried there.

I promise you one thing: It will be heard. I don't know how effective it's going to be, but your message will be heard as well as the testimony we had yesterday and today.

In your statement I circled "tax revenue," and I want to make a point here if I can. Not only does the tax revenue go in Kentucky's general fund of $22 million, but a half a cent per pack goes into research; and we are trying to take care of ourselves and do our thing without "Big Brother" intervening again.

There has been written testimony that the tax structure outlined in this proposed legislation would be a burden. We had this legislation 2 years ago, we had it again this year and I'm sure we will have it next session. So my time is spent trying to defend what we have in Kentucky. This tax structure, in my opinion, would be a significant burden on retailers and require them to use a multipricing structure. What impact do you think this tax situation would have? I believe we have around 27,000 retail establishments in Kentucky and they generate about $280 million sales, but what would this graduated tax structure do to those people? Do you have any idea?

Mr. CURTIS. It would be hard to really say without having to go through the practice, but it would certainly not lessen their burden any,

particularly with the part of the bill which says every so many packs has to have various labels. Particularly on the manufacturing end which I'm most familiar with, this would be almost an impossible task because now cigarettes are produced at the rate of approximately 200 packs per minute and if you talked about every 200 packs you would have to change a different label, then you would be talking about shutting this expensive machinery down every minute and changing that label, which would be an impossible task.

Senator FORD. Of course, the bill sets out the language that will be placed on the packs of cigarettes, 10 different statements, and they have to be alternated down through. So it would become an additional expense on the industry. My astute helper here has the 10 pieces of language that must be put on those labels in case any of you want to read it after a while. I won't insert it in the record, but they set out in here the language. It says "Don't smoke cigarettes to the end. This may reduce the risk to your health." That's one of them you have to put on them. That's my business if I want to smoke it down to the filter or not. I guess it's a constitutional question.

Mr. CURTIS. People who don't make a lot of money have to smoke it down to the end.

Senator FORD. What about the vending machines out there? If you've got a nickel on that one and 15 cents on that one and 48 cents on that one, how many vending machines are you going to have? You couldn't get it all in—you're going to put vending machines out for each one. Think about the retailer handling all the different packs.

One thing that's ironic, too: The Cancer Research Institute had one of their most distinguished researchers say you can smoke one brand of cigarettes, 23 cigarettes a day, as if you hadn't smoked down to 3 cigarettes a day. There are about 20-some brands today that you could smoke a certain number as if you hadn't smoked all day. He's on sabbatical now. They got him out of the research institute. That's the sort of thing that happens. When we get a winner and we actually get the facts out, which we are trying to do now, something happens to put it out. We're not going to let that happen.

Bobby, in your statement you have placed emphasis on the importance of jobs and we have heard testimony that there are 39,000 full-time jobs as relates to the farm itself. Now are the 9,500 members of your union the total number of employees in the tobacco manufacturing business in Kentucky?

Mr. CURTIS. No; we certainly don't have all the tobacco industry organized. These are only in the producing of cigarettes and chewing tobacco. That's it.

Senator FORD. Do you have any idea what the total number of employment would be in the tobacco production, the manufacturing of the products in Kentucky?

Mr. CURTIS. It would be somewhere around 25,000.

Senator FORD. So we're talking roughly about 65,000 employees in Kentucky—taking the 39,000 and making it 40,000 and 25,000—we're talking about 65,000 employees just in the growing, production, and the manufacturing of the product.

Mr. CURTIS. Yes.

Senator FORD. That's pretty good wages, I imagine, over a total 12-month period.

Mr. CURTIS. On the 9,500 organized it's $115 million a year.

Senator FORD. $115 million for 9,500 families?

Mr. CURTIS. Right.

Senator FORD. That's a pretty significant piece of change for a State, isn't it?

Mr. CURTIS. Yes.

Senator FORD. And if we put these people out of work, in effect, it wouldn't be just rippling; it would be waves?

Mr. CURTIS. In Louisville we had American Tobacco Co. who had a plant there and due to people like Califano and others before Califano came along, due to their restrictions on tobacco and the taxes, particularly in the State of New York and the city of New York and elsewhere, where sales dropped down, it caused this company to close down one of its operations and put 2,000 people on the street and we have attempted in our organization to keep some record of these people.

To start with, somewhere in the neighborhood of 75 percent of them went to unemployment. And with our help, using our influence in other operations, we were able to place 25 percent of them. But even today—some of these people were at the age—they went to work there when they were 18 or 19 years old and we were talking about 20, 30, and 35 in some cases, years of service with the company that were placed on the street. You know, when you get to 50——

Senator FORD. I understand that.

Mr. CURTIS. You have a problem finding jobs.

Senator FORD. That's right.

Mr. CURTIS. And no one wants to hire someone who's 50 because of all the benefits involved. A lot of these people even today—and this happened in 1964—some of these people still haven't been able to find a permanent job, particularly to give them the income and keep their standard of living on what it was when they had this permanent job.

Another good example is in Owensboro when American Cigars closed its operation—320 people were out of a job and this was because of the restriction on tobacco.

Senator FORD. I guess we could get into some other areas, but we need to keep on moving. You have been a very good witness. I get kind of worked up when people begin to understand what we are trying to do. So I do thank you, Bobby, and if you have any additional information you want to submit to us we would be glad to use it and we are very pleased that you could be here with us today.

Mr. CURTIS. Thank you, Senator.

[The attachments referred to follow:]

AN ASSESSMENT OF THE IMPACT OF THE TOBACCO INDUSTRY ON THE ECONOMY OF THE 50 UNITED STATES AND THE DISTRICT OF COLUMBIA[1]

(By Kenneth A. Reinhardt, William D. Lewis, State of North Carolina, Department of Administration, Division of Policy Development)

The tobacco industry in the United States uses resources and produces income at all levels, from production on the farm to final consumer sale in the marketplace. Tobacco produces income not only for those who directly participate in its production, manufacturing, and distribution, but also for owners of resources used in the evolution toward the final product purchased by the consumer. The industry has been a dynamic force in the growth of the economy of the 50 states,

[1] Presented to the August 1978 meeting of the National Governors Conference.

especially those which contain farms producing leaf, since its planting by the Virginia settlers led by John Rolfe, in 1609.

In 1977, approximately 276,000 farms in 23 states cultivated a tobacco crop which yielded cash receipts of $2.3 billion, nearly 2.5 percent of all U.S. farm cash receipts. North Carolina led all states in cash receipts with $866 million, followed by Kentucky with $572 million and Tennessee with $174 million. Farms producing tobacco generally accounted for 10 per cent of all farms in tobacco producing states, although they accounted for 83 percent, 50 percent, and 43 percent in Kentucky, Tennessee and North Carolina, respectively.

Almost 966,000 acres of tobacco were harvested in 1977, including 392,500 acres in North Carolina and 199,800 acres in Kentucky, and the harvest yielded nearly two billion pounds. Production required the services of more than 300,000 farm laborers, including many women and children, handicapped, older persons, and unskilled persons with few alternative employment opportunities, who worked an estimated 247 million hours for $621 million. Producers cost was $1.6 billion, including the farm labor payments of $621 million. (See Table No. 1)

In 1977, there were 864 auction warehouses divided among 175 markets in 12 states, led by North Carolina, with 260 warehouses in 48 markets, and followed by Kentucky with 245 in 40 markets. The labor force in these warehouses received an estimated $20 million in wages.

Local governments received $16.5 million in real estate taxes, led by North Carolina with $7 million, followed by Kentucky with $3.5 million and Georgia with $1.5 million. Returns to investment amounted to $685.4 million, including $254.2 million and $197.9 million in North Carolina and Kentucky, respectively.

At the processing and manufacturing level in 1976, 24 states had 393 plants manufacturing cigarettes, cigars, smoking and chewing tobacco and snuff, storing, stemming and redrying of tobacco, and preparation of tobacco after auction sale for the processing plant. North Carolina topped the list with 144 plants and facilities, followed by Florida with 56 and Pennsylvania with 45. The twelve cigarette manufacturing plants in the country were located in four states—North Carolina (5), Kentucky (3), Virginia (3), and Georgia (1). There were 91 stemming and redrying plants in 12 states, 138 cigar plants in 17 states, and 44 smoking and chewing tobacco and snuff plants in 12 states.

Total employment in the processing and manufacture of tobacco products was estimated at 64,800 workers, with annual wages amounting to $704 million. This includes 54,800 production workers who were paid $543.5 million. Of the total employment, 40,800 were in cigarette plants ($521.4 million), 8,400 in cigar plants ($55.7 million), 3,100 in chewing and smoking tobacco and snuff plants ($29.4 million), and 12,500 in stemming and redrying plants ($97.6 million).

U.S. tobacco product manufacturers received a gross income of $4.2 billion in 1976, excluding taxes, $3.7 billion by cigarette manufacturers and $565 million by all others. They paid $2.5 billion in federal excise taxes. (See Table II)

In 1976, 1,863 primary tobacco wholesalers sold tobacco products worth over $10.6 billion. These primary wholesalers employed an estimated 37,000 people at wages amounting to about $346 million. New York employed 3.516 people making wages of $42,716,000 and California employed 2,162 at wages of $28,-729,000.

Each state collected an excise tax on each pack sold to wholesalers, averaging from 2 cents in North Carolina to 21 cents in Connecticut, Massachusetts, and Florida. Aggregate collections in 1976 amounted to close to $3.6 billion, with New York leading all states with $337.4 million, followed by Texas with $279.2 million, California with $266.5 million and Pennsylvania with $245.1 million. Tobacco tax collections represented almost 15% of New Hampshire's total state tax collections, over 7% in New Jersey and over 6% in Arkansas, Florida, Rhode Island, and Texas.

A total of 348 cities and 17 counties in 7 states charged the wholesale establishments a grand total of almost $114 million in gross tobacco taxes in fiscal year 1976: cities charged $95.8 million, while counties collected about $18 million. New York City's taxes of over $51 million made it the leader among states in these taxes, while Missouri city and county taxes (almost $20 million) was second.

Over 1,400,000 retail outlets in the United States sold tobacco products for an aggregate price above $16.3 billion in 1976. New York led the states with 133,835 outlets doing $1.4 billion in tobacco product sales, followed by California with 114,901 ($1.2 billion) and Illinois with 73,888 ($1.1 billion). Employment from the sale of tobacco products ranging from genuine cigar stores to service stations

to general variety stores, is estimated in the millions while payroll is billions of dollars. For those states which administer a sales tax, the gross figure attributable to the sale of tobacco products for all states is $266 million, including California with $71.5 million, Indiana with $18.3 million, and Florida with $16.8 million.

In international trade, despite a dock strike that distorted shipments in the 4th quarter, the United States exported $1.1 billion worh of unmanufactured tobacco in 1977. This was an increase of 9% over the previous year. Also exported, was $637 million worth of manufactured tobacco products, mostly cigarettes, an increase of 19%. The total was over $1.7 billion. Duty paid imports of leaf and mnaufacturers increased 18% over 1976 to $373 million. Tobacco contributed $1.36 billion net in 1977 to the U.S. balance of trade, a record breaking amount.

The cultivation, curing, and preparation for market of tobacco requires a variety of inputs from all over the United States. This includes fertilizer, which is laid in the soil before transplanting seedlings to burlap bags which are used to bundle sheets of tobacco sold on the warehouse floor. Nearly every state in the union has some stake in the economic value of these necessary inputs.

A considerable portion of the farm machinery used is manufactured in Midwest states like Michigan, Indiana, Illinois and Iowa. Pesticides and fertilizers are produced in Texas, Utah, Tennessee, New Jersey, Arkansas, Delaware, New Mexico and Florida. Plant bed covers are largely made in Missouri and New Jersey, irrigation equipment in states west of the Mississippi, and burlap in Minnesota. The production of these and all other inputs provides a great share of employment and income for the citizens of the states concerned.

In summation, then, the tobacco industry is the sustaining factor in the lives of millions of Americans. The employment and income generated by the industry at every stage makes it clear that tobacco is of tremendous significance in the U.S. economy.

Kentucky

Distribution level (1976):	
Primary tobacco wholesalers:	
1. Number of establishments	46
2. Employment	728
3. Payroll (thousands)	$6,963
4. Value of tobacco product sales	$179,617,010
5. State tobacco tax collections (thousands)	$22,196
6. Tobacco tax (percent) of State tax collections	1.58
7. Gross county and city tobacco taxes	0
Retailers handling tobacco products:	
8. Number of establishments	26,504
9. Tobacco product sales (millions)	$277
10. Gross sales tax attributable to tobacco (millions)	$13.85
Farm level (1977):	
Farms:	
11. Number of farms producing tobacco	103,000
12. Tobacco acreage harvested (thousands)	199.8
13. Tobacco poundage harvested (millions)	470.5
14. Farm variable cost (millions)	$370.4
15. Hours of farm labor employed (millions)	58.8
16. Value of farm labor (millions)	$168.2
17. Cash receipts from all tobacco (millions)	$619
18. Tobacco (percent) of total farm cash receipts	33.8
19. Real estate tax collections (millions)	$3.5
Auction warehouses:	
20. Number of sales floors	245
21. Number of markets	40
Processing and manufacturing level (1976):	
22. Number of establishments	20
23. Employment	[1] 9,000
24. Payroll	[1] $115,000,000
25. Cost of materials (millions)	[1] $590.2
26. Value added (millions)	[1] $699.6
27. Value of shipments (millions)	[1] $1,202.9

[1] Includes cigarette manufacturing plants only.

NOTE.—Partial listing of products used in production of tobacco: Product, T company, International Harvest Co.; city, Louisville.

THE ECONOMIC IMPORTANCE OF THE U.S. TOBACCO INDUSTRY

(By Robert H. Miller, Agricultural Economist, Commodity Economics Division, Economics, Statistics, and Cooperatives Service, U.S. Department of Agriculture)

THE MAIN SECTORS, BY STATES

Farm Production.—In 1977, about 276,000 farms produced tobacco having a cash value of $2.3 billion. Although twenty-three states have farms growing tobacco, most of them are in the South. Six states accounted for 90 percent or more of the tobacco allotments, farms producing tobacco, cash receipts, and employment. Detailed information for all states is given in Table 1 and 2 which show farm production, hours of labor, labor and other direct costs (excluding rent), crop value, and allotment value.

The tabulation below shows the six leading states, ranked by the amount of cash receipts from tobacco. For the country as a whole, tobacco cash receipts were 2.5 percent of total cash farm receipts; for the six states the percentage is 22. The heavy concentration of this crop is evident from the figures—North Carolina and Kentucky account for 64 percent of the cash receipts from this crop.

State	Tobacco cash receipts (millions)	Percent of total farm cash receipts (percent)
North Carolina	$866	32.8
Kentucky	619	33.8
South Carolina	171	21.5
Virginia	163	15.8
Georgia	150	6.9
Tennessee	164	11.8

In the 3 leading States, North Carolina, Kentucky and South Carolina, tobacco is the leading source of cash receipts from farm marketings and ranks high in Virginia, Georgia, and Tennessee. However, the relative importance of tobacco in total cash farm receipts has declined. For the 6 State area, cash farm receipts jumped 180 percent from 1955–59 (average) to 1977; tobacco receipts gained 118 percent. As a result, tobacco declined in importance from 28 percent of cash receipts in 1955–59 to 21 percent in 1976 (22 percent in 1977, when crops were seriously hurt by drought).

5 LEADING COMMODITIES RANKED ACCORDING TO CASH RECEIPTS, 6 LEADING TOBACCO STATES, 1976

State	1	2	3	4	5
North Carolina	Tobacco	Broilers	Hogs	Corn	Dairy products.
Kentucky	do	Cattle claves	Dairy products	do	Soybeans.
South Carolina	do	Soybeans	Corn	Eggs	Hogs.
Virginia	Dairy products	Tobacco	Cattle calves	Broilers	Do.
Georgia [1]	Broilers	Peanuts	Eggs	Corn	Soybeans.
Tennessee	Cattle calves	Soybeans	Dairy products	Tobacco	Hogs.

[1] 6, hogs; 7, cattle calves; 8, tobacco.

Source: Compiled from "State Farm Income Statistics," Supp. to Stat. Bul. 576, Economic Research Service, U.S. Department of Agriculture, 1977.

TOBACCO'S SHARE OF CASH FARM RECEIPTS FROM MARKETINGS, 6 LEADING STATES, 1955–59, 1967, AND 1977

[In percent]

State	1955–59	1967	1977 [1]
North Carolina	47.0	41.3	32.8
Kentucky	40.0	41.6	33.8
South Carolina	25.5	25.2	21.5
Virginia	17.5	16.2	15.8
Georgia	8.9	9.8	6.9
Tennessee	14.9	13.8	11.8
6-State area	27.8	26.8	21.7

[1] Preliminary.

From 1955–59 to 1977, North Carolina, the largest tobacco-producing State, had a 173 percent increase in cash farm receipts, but a 91 percent increase in receipts from tobacco. Tobacco declined from 47 percent of total receipts in 1955–59 to 33 percent in 1977. Other States in the south-eastern producing area had gains in total cash farm receipts ranging from 126 percent in Virginia to 218 percent in Georgia. Cash receipts from tobacco relative to all commodities decreased for all States in the six State area.

Farm numbers further illustrates the importance of tobacco:

State	Tobacco allotments (farms)	farms producing tobacco	Percent of total farms
Kentucky	166, 233	103, 000	83. 1
North Carolina	134, 018	52, 000	42. 6
Tennessee	104, 709	62, 000	50. 4
Virginia	43, 673	21, 000	29. 2
Georgia	25, 330	5, 000	7. 1
South Carolina	23, 907	6, 000	12. 8

In addition to the dominant tobacco-growing states, the following six states have from 100 to 7,600 farms producing tobacco, accounting for virtually all of the remaining 10 percent of farm income from this crop.

State	Tobacco allotments (farms)	Farms producing tobacco	Tobacco cash receipts (millions)
Florida	7, 106	1, 400	$32. 9
Maryland	0	3, 000	30. 9
Ohio	11, 771	7, 600	28. 0
Indiana	9, 874	5, 000	22. 7
Connecticut	120	100	22. 8
Wisconsin	4, 573	3, 100	20. 1

Farms growing tobacco are relatively small, but a number of crops besides tobacco are grown. Tobacco accounts for 3.3 percent of the area planted for the 6 leading tobacco producing States. North Carolina, the ranking State has 8 percent of crop acreage in tobacco. The acreage planted in tobacco averages approximately 3½ acres per farm, nationally. However, the range is considerable. In Tennessee, the average is slightly over one acre per farm. At the other extreme, Connecticut farms average 37 acres.

County Patterns.—Tobacco allotment and Census of Agriculture data show the number of counties with farm allotments or farms growing tobacco. Of 3,068 counties and parishes in the United States, 21 percent, or 651 counties report tobacco allotments or production.

Farm earnings are a major source of earnings in many counties where tobacco is grown. In addition, a major share of the farm earnings are derived from such primary crops as tobacco. For example, in Maryland, tobacco ranks seventh as a source of cash farm income (3.3 percent of the total), but virtually all the tobacco is grown in 5 counties of southern Maryland where it represents about 44 percent of cash receipts from farm marketings.

Farmers are changing from a reliance on single crop agriculture as the major source of income. However, major changes in agriculture policy pertaining to tobacco would have a substantial effect on the economies of many local communities. (D.H. Carley, *Farm Earnings: Total Earning Relationships in Southwest Georgia*, Research Bulletin 173, Dept. of Agricultural Economics, Georgia Station, 1975).

Tobacco Leaf Handling and Processing.—The processing sector of the tobacco industry (defined by Census as stemming and redrying) generally follows the geographical pattern set by tobacco growing. The principal states, ranked by total income are shown below.

STEMMING AND REDRYING PLANTS, 1972

State	Establishments	Value added [1] (millions)	Employees [1] (thousands)
North Carolina	29	[2] $57	[2] 5.4
Kentucky	11	[2] 30	[2] 1.5
Virginia	13	36	2.5
Tennessee	6	[2] 12	[2] .5
South Carolina	2	[2] 1–3	[2] .1
Florida	3	[2] 4–8	[2] .3
Northeast region [3]	19	7.9	
Total	91	153.6	11.4

[1] 1976 equals $277,500,000 and 12,500, respectively. Detail by States not available but the 1972 distribution continued.
[2] Estimated.
[3] Includes 2 plants in Louisiana.

These four leading states account for well over 80 percent of the business volume of plants in tobacco processing (stemming and redrying). Virtually all of this processing is done at specialized plants, with only about 3 percent of the U.S. total done at other kinds of factories primarily cigarette plants.

The Manufacturing Industry.—The 180 manufacturing establishments in the tobacco products industry are located in twenty-nine states. With nationwide sales organizations, however, the industry provides employment in all fifty states. In contrast to tobacco growing, which is highly labor intensive, cigarette manufacturing is less so. Other tobacco product manufacturing is less so.

The high degree of concentration of cigarette manufacturing means virtually all of the output is found in three States as follows:

CIGARETTE PLANTS, 1972

	Establishments	Value added [1] (millions)	Employees [1] (thousands)
North Carolina	5	$1,198.5	17.6
Virginia	3	[2] 524.9	[2] 11.0
Kentucky	3	464.4	9.5
Total	11	2,187.8	38.1

[1] 1976 equals $3,591,900,000 and 40,800, respectively. Detail by States not available.
[2] Estimated.

Other tobacco products account for less than 10 percent of the retail value of tobacco products but are manufactured in more numerous, smaller scale factories than cigarettes. The number of factories manufacturing cigars and chewing and smoking tobacco has been declining for many years, but remain more scattered geographically than in the case of cigarettes.

CIGAR FACTORIES, 1972

State	Establishments	Value added (millions) [1]	Employees (thousands) [1]
Pennsylvania	29	$104.7	6.0
Florida	54	49.6	4.1
Alabama	3	[2] 10–19.0	[2] 1.0
Georgia	2	[2] 5–9.0	[2] .7
Kentucky	1	[2] 5–9.0	[2] .6
South Carolina	1	[2] 2–4.0	[2] .4
Ohio	2	[2] 2–4.0	[2] .3
Indiana	3	[2] 1–1.9	[2] .1
Other States [3]	37	[2] 4.2	[2] .3
Total	132	192.5	13.5

[1] 1976 equals $147,500 and 8,400, respectively.
[2] Estimated.
[3] Detail by States not available.

CHEWING AND SMOKING FACTORIES, 1972 [2]

State	Establishments	Value added [1] (millions)	Employees [1] (thousands)
Tennessee	5	$20.0	0.6
Virginia	3	10–19.0	.6
Illinois	1	5–9.0	.2
New Jersey	1	5–9.0	.2
North Carolina	3	5–9.0	.4
Ohio	4	10–19.0	.8
Missouri	2	5–9.0	.2
West Virginia	1	2–4.0	.2
Kentucky	5	2–4.0	.2
Other States [3]	12	5.9	.2
Total	37	103.2	3.3

[1] 1976 equals $161,000,000 and 3,100, respectively.
[2] Estimated.
[3] Detail by States not available.

Tobacco Product Distribution—The tobacco industry has perhaps the most widely dispersed distribution system to be found for any product in the country. There are about 3 thousand wholesale establishments handling the distribution of tobacco products to retail channels. In 1976, wholesale sales amounted to nearly $11 billion. Table 3 presents wholesale and retail sales data by State as well as excise tax collections for the combined tobacco products industries. Overall, the distribution of this product through wholesale and retail channels involves an estimated 200 thousand persons.

TABLE 1.—TOBACCO: ALLOTMENTS, FARMS, PRODUCTION PRICE, VALUE, BY STATES, 1977

State	Farm allotments (number)	Farms producing tobacco: Number [1]	Farms producing tobacco: As percent of all farms	Area harvested (thousand acres)	Yield per acre (pounds)	Production (million pounds)	Price per pound (cents)	Value of production (millions)
Alabama	291	100	0.1	0.6	1,900	1.1	111.0	$1.2
Connecticut	120	100	2.4	3.7	1,619	6.1	377.1	22.8
Florida	7,106	1,400	4.4	12.6	1,997	25.2	122.5	30.9
Georgia	25,330	5,000	7.1	65.0	2,075	134.9	115.0	155.1
Indiana	9,874	5,000	4.9	7.6	2,500	19.0	119.5	22.7
Kentucky	166,233	103,000	83.1	199.8	2,355	470.5	121.6	571.8
Louisiana	0	25	.1	.2	900	.1	154.8	.2
Maryland	0	3,000	17.1	23.0	1,300	29.9	110.0	32.9
Massachusetts	85	50	.9	1.2	1,654	1.9	458.6	8.8
Missouri	1,492	1,000	.7	2.5	2,300	5.8	116.0	6.7
North Carolina	134,018	52,000	42.6	392.5	1,890	741.7	116.8	866.2
Ohio	11,771	7,600	6.6	11.2	2,224	24.9	112.5	28.0
Pennsylvania	21	2,500	3.5	13.0	1,810	23.5	60.0	14.1
South Carolina	23,907	6,000	12.8	68.0	2,035	138.4	123.5	170.9
Tennessee	104,704	62,000	50.4	71.4	2,012	143.6	121.1	173.9
Virginia	43,673	21,000	29.2	79.8	1,767	141.0	116.3	164.0
West Virginia	4,253	3,000	11.5	1.7	1,800	3.1	112.5	3.4
Wisconsin	4,573	3,100	3.1	11.9	1,978	23.5	85.5	20.1
Other States	[2] 143	75	(3)	(3)	(3)	(3)	(3)	(3)
United States	537,435	275,950	10.0	965.6	2,003	1,934.2	118.6	2,293.8

[1] Estimated.
[2] Arkansas, Illinois, Kansas, Minnesota, and New York.
[3] Negligible.

Source: Data from Agricultural Stabilization and Conservation Service, and Economics, Statistics, and Cooperatives Service.

TABLE 2.—TOBACCO, ESTIMATED COSTS AND RETURNS, ALLOTMENT VALUE, BY STATES, 1977

[Dollar amounts in millions]

State	Farm labor used for tobacco		Other costs excluding rent [1]	Real estate taxes	Residual, allotment and management	Total crop value	Allotment value
	Hours	Value					
Alabama	0.1	$0.3	$0.6	(2)	$0.3	$1.2	$1.8
Connecticut	3.6	10.6	4.5	$0.1	7.6	22.8	.5
Florida	3.0	6.9	13.3	.3	10.4	30.9	52.0
Georgia	16.3	37.6	72.3	1.5	43.7	155.1	280.0
Indiana	2.1	6.2	7.5	.2	8.8	22.7	38.0
Kentucky	58.8	168.2	202.2	3.5	197.9	571.8	900.0
Louisiana	(2)	.1	.1	(2)	(2)	.2	----------
Maryland	5.4	12.8	15.6	.2	4.3	32.9	----------
Massachusetts	1.3	3.7	1.6	(2)	3.5	8.8	(2)
Missouri	.7	2.1	2.6	.1	1.9	6.7	10.0
North Carolina	89.6	207.0	398.0	7.0	254.2	866.2	1,700.0
Ohio	3.3	9.8	11.8	.3	6.1	28.0	38.0
Pennsylvania	3.1	9.2	11.2	.1	−6.4	14.1	----------
South Carolina	18.0	41.6	80.0	1.0	48.3	170.9	300.0
Tennessee	17.0	50.3	60.5	1.0	62.1	173.9	220.0
Virginia	20.4	46.3	79.0	1.1	37.6	164.0	240.0
West Virginia	.5	1.6	1.9	(2)	−.1	3.4	5.2
Wisconsin	2.8	6.7	8.1	.1	5.2	20.1	5.3
United States	246.9	621.0	970.8	16.5	685.4	2,293.7	3,790.8

[1] Includes machinery and building ownership cost.
[2] Less than $500,000.

Source: Robert H. Miller, Economics, Statistics, and Cooperatives Services, U.S. Department of Agriculture.

TABLE 3.—TOBACCO PRODUCTS—VALUE OF PRODUCTS DISTRIBUTED AND STATE TAX COLLECTIONS, BY STATE, 1976

[Dollar amounts in millions]

State	Tobacco tax collection		Value of tobacco products	
	Amount	Share of all taxes (percent)	Wholesale	Retail [1]
Alabama	$48.6	3.9	$177	$273
Alaska	4.7	.8	17	26
Arizona	35.6	3.5	72	111
Arkansas	45.1	6.2	91	141
California	268.5	2.5	774	1,192
Colorado	32.7	3.4	108	166
Connecticut	73.4	5.8	183	282
Delaware	12.4	3.5	32	49
District of Columbia	11.9	1.8	57	88
Florida	185.6	6.3	273	421
Georgia	73.2	4.4	212	327
Hawaii	9.8	1.5	41	63
Idaho	9.5	2.9	36	55
Illinois	174.5	3.7	687	1,057
Indiana	51.0	2.7	297	458
Iowa	46.2	8.8	172	265
Kansas	31.5	3.7	136	210
Kentucky	21.8	1.6	180	277
Louisiana	56.3	3.4	172	265
Maine	24.1	4.5	56	86
Maryland	54.5	2.8	225	347
Massachusetts	141.9	5.2	343	528
Michigan	138.6	3.7	503	774
Minnesota	83.3	3.8	200	308
Mississippi	30.9	3.5	106	163
Missouri	58.8	4.1	264	407
Montana	11.4	4.1	40	62
Nebraska	22.5	4.6	90	139
Nevada	11.2	3.8	24	37
New Hampshire	26.7	14.5	38	59
New Jersey	166.2	7.2	424	653
New Mexico	13.7	2.4	49	75
New York	333.4	3.4	926	1,426
North Carolina	20.9	1.0	232	357
North Dakota	8.6	3.0	35	54
Ohio	194.8	5.9	598	921
Oklahoma	51.2	5.1	145	223
Oregon	30.7	3.7	111	171
Pennsylvania	245.0	4.8	707	1,089
Rhode Island	24.5	6.3	60	92
South Carolina	23.4	2.2	107	165
South Dakota	9.1	4.7	35	54
Tennessee	66.1	5.2	188	290
Texas	281.7	6.7	533	821
Utah	7.5	1.6	48	74
Vermont	9.9	4.8	25	39
Virginia	17.7	1.0	256	394
Washington	59.0	3.2	188	290
West Virginia	27.0	3.2	110	169
Wisconsin	84.2	3.5	238	367
Wyoming	4.6	2.4	19	29
Total	3,475.6	3.9	10,639	16,380

[1] Wholesale value increased uniformly by States to equal U.S. retail total.

Source: "Tax Administrators News," Federation of Tax Administrators, April 1977, p. 41; U.S. Bureau of the Census, "Governmental Finances in 1975–76," GF-76, No. 5, 1977, pp. 47–49; "NATD Coordinator," National Association of Tobacco Distributors, 1977, pp. 213–2.

Senator FORD. The next witness representing tobacco warehousemen will be Mr. Phil Wells, president, Burley Auction Warehouse Association and he's from Glasgow. Phil, will you come forward and we would be delighted to hear your testimony.

STATEMENT OF PHIL WELLS, PRESIDENT, BURLEY AUCTION WAREHOUSE ASSOCIATION, GLASGOW, KY.

Mr. WELLS. Thank you, Senator. The statement I would like to read to this committee, with some changes, is the official position of my association on S. 3118, and it's already been presented to you in Lexington yesterday, but I would like to present it from this section of the State of Kentucky today.

Senator FORD. Fine. I appreciate it Phil. If you would proceed, we would be delighted to hear it.

Mr. WELLS. My name is Phil B. Wells, Glasgow, Ky. I am president of the board of the Burley Auction Warehouse Association, a trade association representing auction warehouses in eight States comprising 379 warehouses on 61 markets. In addition, I serve as a director of the Council for Burley Tobacco, a member of the Governor of Kentuckey's Agricultural Advisory Committee, and director of the Kentucky Tobacco and Health Institute. Also, I am testifying as a tobacco warehouseman.

I would like to commend Senator Ford and the Consumer Subcommittee of the Senate Committee of Commerce, Science, and Transportation for holding this hearing to consider S. 3118, the Smoking Deterrence Act of 1978.

May I begin saying that for over 200 years burley tobacco has been an economic lifeline to Kentucky. Beginning in 1790 when Kentucky was part of Virginia, farmers shipped over 250,000 pounds of leaf to New Orleans.

Although times have changed, the importance of tobacco to Kentucky is now greater than ever. We rank the highest of any State as to the percentage of cash receipts from tobacco to total farm marketings. It is not only our largest cash crop, but this year's crop will contribute over $600 million to our economy. This comes from 179,000 acres, 143,000 allotments, and over 120,000 tobacco farm families depending on tobacco for their livelihood. In addition, they in turn employ many thousands of Kentuckians during the growing, harvesting, and marketing season.

This is just a beginning of the economic lifeline that begins on the farm. The $600 million cash receipts in less than 2 months' time is conservatively turned over four to five times throughout almost every segment of our consumer market. Merchants, bankers, local governments, or you might say, every Kentuckian shares in the economic benefits from Kentuckey's golden burley.

There are the manufacturing plants, numerous processing plants, and over 200 auction warehouses that will handle this year's over 425 million pounds of the golden leaf.

All Kentuckians are proud of this important cash crop and what it means to our Commonwealth. We are also proud of the fact that it is the most successful commodity program that has been administered at the Federal level without cost to the taxpayers. There is a united effort

from the Governor's office down to the county courthouses in all 120 counties to help promote and support the continuation of our successful tobacco program. Naturally, this interest extends to Washington where our distinguished Kentucky Senators, Wendell Ford and "Dee" Huddleston, along with our Representatives in the House are in the forefront to support and protect our interests.

S. 3118, which provides for regulations and restrictions on smoking in Federal facilities plus a so-called Health Protection Act, is a perfect example of a bureaucratic attempt by the do-gooders and social reformers of this country to destroy an industry that not only furnishes a livelihood for over 750,000 farm families, but produces over $6 billion in taxes to our Federal, State, and local governments.

My predecessor, Albert G. Clay, who was president of the Burley Auction Warehouse Association at the time, was one of the 14 sponsors of the Tobacco Industry Research Committee created in 1954 when the health issue surfaced. He is the only living member of this 14-man group that issued a statement to cigarette smokers that appeared in every major newspaper in this country. May I quote from that statement which appears as part of my testimony, because what was said then is true today.

> Statistics purporting to link cigarette smoking with a disease could apply with equal force to any one of many other aspects of modern life. Indeed, the validity of the statistics themselves is questioned by numerous scientists.
>
> We accept an interest in people's health as a basic responsibility paramount to every other consideration in our business.
>
> We always have and always will cooperate closely with those whose task it is to safeguard the public health.
>
> For more than 300 years, tobacco has given solace, relaxation, and enjoyment to mankind. At one time or another during those years, critics have held it responsible for practically every disease of the human body. One by one these charges have been abandoned for lack of evidence.
>
> We are pledging aid and assistance to the research effort into all phases of tobacco use and health.

S. 3118 is not only an attempt to destroy a legitimate industry by unreasonable restrictions, but it would create another bureaucratic instrumentality that would burden our taxpayers and deprive them of their individual freedom.

The entire bill is another attempt to further Government intervention into private lives and personal preferences.

The health protective tax it proposes is discriminating, ridiculous, and would be impossible to enforce.

The labeling requirements are unjust, unwarranted, misleading, and inconsistent with scientific and research findings.

This important American industry and the over 1 million persons employed full time and part time in its production have been the victims, too long, of false accusations, damaging labels, and misleading statistics without supportive scientific evidence.

There is no more justification for this legislation than a bill that would segregate people who used a certain fragrance of hair spray or face lotion because it was objectionable to others. The presence of tobacco smoke has not been proven to be harmful to health. Let's not forget that we still live in a country where freedom of choice and preference should be as important as freedom of speech.

Thank you, sir, and I will be glad to answer any questions you have.

Senator FORD. You make some very good points. One question I want to pursue a little bit further is the employment. In your statement you say, "This important American industry and the over 1 million persons employed full-time and part-time in its production has been the victim." What I wanted to get to was the 1 million persons employed full or part time.

Now are you talking about the total American industry?

Mr. WELLS. Yes, sir, all types of tobacco.

Senator FORD. Well, this is the first time we have gone over the borders of Kentucky and I just mentioned a little while ago I was hopeful I could take this kind of hearing into other States to see what the effects on the economy might be as it relates to tobacco. I understood from yesterday's testimony there are about 30 markets in Kentucky and about 200 auction warehouses. How much employment do you have within the warehousing industry itself?

Mr. WELLS. Within the State?

Senator FORD. Yes; just in the Commonwealth.

Mr. WELLS. Senator, I don't have those figures at hand right now on the total employment of the State of Kentucky.

Senator FORD. Could we make an educated guess so that we can put it in the record at is relates to warehouse employment. This is seasonal work and it's very important as it relates to the communities in which you have the warehouses and its sales.

Mr. WELLS. Well, with a total of 200 auction warehouses in the State, I would have to venture to say somewhere around 50,000 employees.

Senator FORD. O.K. So we'll say an educated guess would put it in that area—most of it is part time, but in the warehouse business you do have to have full-time people year-round. You can't just close the door.

Mr. WELLS. You don't have many of those but there are some.

Senator FORD. Do you know of a business in Kentucky that would not be affected if tobacco was eliminated as a cash crop?

Mr. WELLS. In my opinion, I know of no business at all. In my own community I know that every business would be affected by the tobacco industry. It is affected by the tobacco industry and if we should lose it, we would have a lot of long faces in Glasgow—the bankers and the business people and all. I know that. I know they would make that statement themselves.

Senator FORD. We have some testimony from the banking industry but perhaps not enough. If the bill is approved and the President signs it and it goes into effect, it is estimated that Kentucky would lose 30 percent of its production. What would that do to the banking industry, your savings and loans and all the financial institutions here?

Mr. WELLS. The banks in my particular area, Glasgow, for the farmer, he has to have a tobacco crop, and a lot of farmers borrow on the strength of their tobacco crop to finish the crop out or borrow money to buy machinery and so on. If they don't have a tobacco crop, they have pretty slim chances sometimes.

Senator FORD. Would I be reasonable in saying that we have heard testimony where soybeans and grain money can be borrowed, but would I be safe in saying that tobacco is the backbone of the financial structure of the farm family?

Mr. WELLS. It definitely is in Warren County, in Glasgow.

Senator FORD. So we're saying that in order to get into other crops they borrow on the tobacco crop, get a loan on it. I'm sure they pay that off before they get their checks sometimes.

Mr. WELLS. Yes, sir.

Senator FORD. If they didn't have that, they couldn't do the other related things, the farm family, if they did not have the tobacco to stabilize it?

Mr. WELLS. Not in my area, no, sir; they definitely could not. I'd like to make another comment. The only crop, or the only commodity that I know that can take the place of tobacco on a small acreage would be a gushing oil well.

Senator FORD. Well, that's not a bad idea, but there are not many of them around. It would help to eliminate our energy shortage too. I was talking to a fellow in Louisville the other night and he was drilling for water and he hit a gas well and he couldn't find anybody to shut it off. So maybe there is some luck around.

One of the experts at the University of Kentucky said that a 130-acre farm, if you're going to replace that with something else, in trying to analyze it, it would take 160 sheep. Of course, that's more sheep than you have land to graze them on. He said the top soil would be down to Mexico within a few years if you tried to do that. Of course, if you had that many sheep we would be eating nothing but mutton and that's not a bad deal sometimes, but not all the time.

Phil, you have been an excellent witness this morning. We are delighted to have you and I assure you that your statement representing the official position of the Warehouse Association will be carried to the right places and people will at least have an opportunity to read it. If they won't read it, I guarantee they will hear it if they will listen to it. Thank you very much. We appreciate it.

The next witness this morning will be from the tobacco dealers, Mr. Frank Snodgrass, vice president and managing director, Burley & Dark Leaf Export Association from Washington. Frank we are delighted to have you this morning and we appreciate your being here and we look forward to hearing your testimony.

STATEMENT OF FRANK B. SNODGRASS, VICE PRESIDENT AND MANAGING DIRECTOR, BURLEY & DARK LEAF TOBACCO EXPORT ASSOCIATION, INC.

Mr. SNODGRASS. Thank you.

Mr. Chairman and members of the staff of the committee: For the record, I am Frank B. Snodgrass, vice president and managing director of the Burley & Dark Leaf Tobacco Association, Inc., with offices at 1100 17th Street N.W., Washington, D.C. I am also a resident of Bowling Green, Ky., even though I've represented this association in Washington for the past 20 years.

Senator FORD. That just shows good judgment.

Mr. SNODGRASS. Right. The association I represent is a federated trade association, composed of the following member organizations representing growers, warehousemen, and exporters of burley and dark tobacco: Association of Dark Leaf Tobacco Dealers & Exporters, Mayfield, Ky.; Burley Auction Warehouse Association, Mou

Sterling, Ky.; Burley Leaf Tobacco Dealers Association, Lexington, Ky.; Burley Stabilization Corp., Knoxville, Tenn.; Burley Tobacco Growers Cooperative Association, Lexington, Ky.; Eastern Dark Fired Tobacco Growers Association, Springfield, Tenn.; Kentucky Farm Bureau Federation, Louisville, Ky.; Stemming District Tobacco Association, Henderson, Ky.; and Western Dark Fried Tobacco Growers Association, Murray, Ky.

I greatly appreciate this opportunity of appearing before your committee and giving the views of our organization concerning S. 3118, the Smoking Deterrence Act of 1978 and the economic impact of such legislation on the tobacco industry in Kentucky and the national economy.

Although the piece of legislation under discussion today died with the adjournment of the 2d session of the 95th Congress, I think it is essential that we be given an opportunity to develop legislative history in anticipation that a similar bill will be introduced by Senator Kennedy, or some other antitobacco zealot, when the 96th Congress convenes.

You have expressed particular interest in the effect of the taxing provisions of the bill. I have the pleasure of also serving as the chairman of the Tobacco Tax Council, with offices in Richmond, Va. It is hoped that members of the Tobacco Tax Council staff would be afforded an opportunity to testify on this particular subject, to give detailed information at some later date if further consideration of this measure is deemed necessary.

Senator FORD. Let me stop you at that point and just say to you that if additional hearings are held in Washington, and I suspect they will be——

Mr. SNODGRASS. Yes. The Finance Committee has not reviewed it as of now.

Senator FORD. They will have to come before me for certain segments, and I guarantee they will have an opportunity to testify.

Mr. SNODGRASS. I do wish to confine my brief remarks to the taxing provisions of the bill.

The tobacco industry has played a significant role in the development of this Nation, and it continues to provide jobs and incomes for many people. Therefore, I become gravely concerned when legislation is proposed that will adversely affect the tobacco industry and the flow of economic benefits it provides.

The proposed Smoking Deterrence Act of 1978, S. 3118, interferes with the rights of smokers and establishes a new system of cigarette taxes which will have adverse consequences for all sectors of the tobacco industry. The graduated Federal cigarette tax called for in this legislation is based on the tar and nicotine content of cigarettes. Nationally, such legislation has been proposed before in 1967, 1971, 1973, and 1976. You may recall that New York City had a tar and nicotine tax from July 1971 to December 1975. The city repealed the tax because it presented serious administrative and enforcement problems.

The proposed Federal tar and nicotine tax would present the same administrative difficulties. The tax will complicate the pricing process by creating a multidimensioned price structure which will be capable of changing over time as the tar and nicotine content of cigarettes fluctuate. Wholesalers presently invoice cigarettes in each tax jurisdic-

tion at two prices per carton, one for regular and king size, and a slightly higher price for 100's and over in size. Sellers are not equipped to have a separate price for each brand of cigarettes. Most retailers do not mark the price of cigarettes on individual packs and cartons. They only sell cigarettes at two prices, reflecting differences in length only. Therefore, the multipricing structure required by the proposed legislation would be especially burdensome for retailers. The additional tax would mean additional borrowed capital to finance cigarette inventories and accounts receivable.

Furthermore, vending machines cannot be modified to handle more than three different prices. Replacement or modifications would cost this group of distributors hundreds of millions of dollars.

Since the proposed Federal tar and nicotine tax will be collected at the manufacturing level, the compliance costs for the manufacturers will increase. The cigarette manufacturers will be required to record sales by brand and brand item so that the proportion of sales falling within each category can be audited. The additional administrative work and accounting required will increase compliance costs.

A Federal tar and nicotine tax will significantly reduce tax revenues generated by State and local governments. While Federal cigarette tax revenues would increase, the higher prices and lower consumption resulting from the imposition of a tar and nicotine tax would reduce State tax-paid cigarette sales and thus reduce State cigarette tax revenues. USDA officials have said that State and local revenues would decline by a minimum of 3 to 7 percent.

The tar and nicotine tax is inequitable. It will actively discriminate against the poor by imposing a disproportionate burden on families in the lower income groups.

Finally, I am opposed to the proposed legislation because it will adversely affect the tobacco farmer. In order to assess the effects of the tax on tobacco farmers, let's trace back the retail market changes to the farm level. The farm demand for tobacco is derived from the retail demand for tobacco products. The proposed tar and nicotine tax will decrease the retail demand for tobacco products. Consequently, processors and manufacturers will not need as much tobacco, and this will be reflected in a decrease in the demand for tobacco at the farm level. As a result, tobacco farmers will produce and sell less tobacco, and their farm incomes will decline.

In summary, S. 3118 should be opposed by all concerned citizens. The administrative disadvantages of a Federal tar and nicotine tax are numerous. The tax is inequitable and will adversely affect State tax revenues. Finally, S. 3118 should be opposed because it will result in significant losses for the tobacco farmer.

On behalf of the membership of my organization, I urge you to oppose this legislation.

Senator, before I close my remarks, I would like to publicly express the appreciation of the growers, warehousemen, and export dealers for your very fine efforts on our behalf in Washington during the short time that you have been there. You have been always on the battleline looking after the needs of the tobacco industry, and we greatly appreciate it.

Senator FORD. Well, I appreciate the comments, Frank. Of course, I can tell you very easily that it's my job. I have to represent my con-

stituency, but I always like a good fight, and this has been a good fight and we have been winning it. As long as we are winning, I'm going to feel pretty good, but you have to have this sort of information to combat what's going on in Washington. I think we have something. I think you have brought up a point, and I want to kind of lean back and talk to you a little bit if I can.

We go back to prohibition days, and prohibition was affecting a Kentucky product. We're getting into another prohibition here, I think, and it's right out on the table and people can see it. We have already had national legislation where you increase the tax—that is, New York, New Jersey, the nothern area—23 cents a pack, I think, in New York State, if I'm correct in that figure——

Mr. SNODGRASS. Right.

Senator FORD. So what is happening? The truckers are taking a shipment to the South and coming back through North and South Carolina and Kentucky, and picking up cases of cigarettes and putting them in their truck and making a few dollars. It's become almost in the Mafia arena, and we're getting into the underworld element as it relates to the bootlegging. The marihuana shipments from other countries are coming in, and we are only stopping 2 to 5 percent of that shipment. So they're going to get into the cigarette bootlegging from other countries if we get into this, and we have enacted the anticigarette bootlegging legislation this past session of Congress and that just gets "Big Brother" into the lives of the local retailer, the wholesaler, where he has to keep a record of his sales of cigarettes of 60,000 or more. They want him to take a license plate, get a social security number, and all these sort of things, and it just, I think, proves the point that we ought to see as we're going down the path of trying to enact this tax or an additional tax on cigarettes, and if we cannot—if we don't take into consideration the experience we had during prohibition as it related to alcohol—and now we're getting into cigarettes, a 400-year tradition, I think we ought to be able to see it. I hope you will agree with that and maybe we can make some of those points. Maybe those who are more eloquent than I am can do a better job.

As vice president of your association, Frank, do you think those Members of Congress who support antitobacco legislation have taken into full consideration the economic importance of the tobacco industry, not only to the various States, but to the national economy itself?

Mr. SNODGRASS. Very definitely not. I think about 90 percent of their interest is for home consumption. They are playing—some of them—for religious purposes; others of them are out to get the headlines because tobacco has been the most recent whipping boy. Maybe it will all pass away and some other commodity will assume that position as a whipping boy, but they've certainly been on us since 1964.

Senator FORD. In regard to import/export and the balance of payments, which we have had a very sad experience with since the embargo of 1973, are you familiar with the net balance-of-payment profit as it relates to tobacco?

Mr. SNODGRASS. On our exports of leaf tobacco and tobacco products versus our imports, it's a favorable net payment of about $1.4 billion a year, which adds tremendously to our deficit that's been incurred with the oil embargo.

Senator FORD. So what you're saying is that the tobacco industry accounts for $1.4 billion on the favorable side of our balance of payments?

Mr. SNODGRASS. Yes.

Senator FORD. Knowing the Washington scene, as you do, Frank, although S. 3118 was held in captive as you know—it was not reported out of the committee in this session—what kind of tobacco legislation do you predict will be introduced in the next Congress?

Mr. SNODGRASS. Well, it would suit me fine if there were none.

Senator FORD. I understand. Me, too.

Mr. SNODGRASS. I think our tobacco program, Senator, deserves better treatment than we're getting. Since it was formed back in 1943, the total cost to the Federal taxpayer or the loss to the Government in total has been only $52 million, which represents about one-fourth of 1 percent of the cost of all other farm commodities.

In addition to that, we have an income to the Federal Government and State governments of a little over $6 billion a year. So I don't think we have a tobacco subsidy. I think that we are subsidizing the Government from the income that the users of tobacco products are paying into the Federal Government.

Senator FORD. In your statement you say that the tax legislation based on tar and nicotine has been introduced in 1967, 1971, 1973, and 1976. Do you doubt but what it will be introduced next session?

Mr. SNODGRASS. No, I have no doubt.

Senator FORD. So this same type of legislation, in your judgment of the Washington scene, will be introduced in the next session?

Mr. SNODGRASS. Yes. very definitely.

Senator FORD. In your statement you also mentioned that this legislation could be a large burden on the vending machine operator. I believe it's important that the record accurately reflect the precise nature of this burden. Could you tell us for the record what would happen to the vending machine industry if the multipricing structure in S. 3118 was implemented?

Mr. SNODGRASS. Well. No. 1, they would have to rework all the machines because if the tax goes up to 50 cents then you would have a different coinage.

Second, the machines that are presently produced only permit the differential of three prices at a time and conceivably if you had a tax based on tar and nicotine of every brand of cigarettes it would require a different taxing amount. Now this is one of the problems we run into in fighting cigarette taxes at the State level. Maybe a State legislature will increase the cigarette tax a half a cent but right off the vendor must charge a nickel for it because they are only equipped in the vending machines to work in multiples of 5 cents. So it would increase the problem.

Really, cigarette taxes are a regressive tax in that it is paid by those that are least able to pay and get no benefit from it other than the pleasure of smoking.

Senator FORD. So you're saying that virtually every vending machine in the country would have to be replaced or reworked and you doubt seriously that the reworking would produce the number of prices that would be necessary to accommodate this legislation?

Mr. SNODGRASS. Very definitely.

Senator FORD. So we're getting into another field, another industry, that is everywhere you go.

Mr. SNODGRASS. Right.

Senator FORD. Do you have any judgment from your association of what kind of a burden the retailer might face if he had the prospect of selling the many different brands of cigarettes that this bill would propose?

Mr. SNODGRASS. I think it would practically eliminate the "Ma and Pa" type shop where there's just a man and his wife, because he would have to carry such a large inventory and the additional amount of borrowing that he would have to do to initiate it and to maintain all brands would be a hardship on him. So I think it would cause great hardship on a number of retailers.

Senator FORD. What percentage of Kentucky's tobacco production is dark leaf?

Mr. SNODGRASS. It runs about 40 million pounds on your Kentucky-Tennessee dark Fire-cured versus about 400 million. About a tenth of burley.

Senator FORD. Do you have any dollar value on 40 million pounds? It's been selling pretty good.

Mr. SNODGRASS. If it sells as well as it did last year, it will bring about $1.50 a pound.

Senator FORD. So we're talking about a $60 million income.

Mr. SNODGRASS. Right.

Senator FORD. I've heard the figure $100 million thrown around for the State as related to dark tobacco. Is that a little high?

Mr. SNODGRASS. When you take into consideration dark air-cured, I think it's all right.

Senator FORD. So the $100 million figure would be all right?

Mr. SNODGRASS. Yes.

Senator FORD. How much of the dark leaf is exported?

Mr. SNODGRASS. Well, about 50 percent of the dark Fire-cured tobacco is exported, the largest market being the Netherlands, and about 25 to 30 percent of our burley is exported.

Senator FORD. I've heard that our price for tobacco is much higher but they buy it because of the fine quality.

Mr. SNODGRASS. That is very true and that's one of the primary goals of our association, to maintain that quality, because we cannot compete pricewise in the international field. You see, our cost of living and our taxes and land values are so much greater than some of the emerging nations, where they pay 50 cents a day for labor and they're getting our know-how, now it's becoming very, very competitive.

Senator FORD. Well, the tobacco is a pliable product and Representative Blandford made the point I think about the research that's going on. We know if they can find an ingredient that is critical it's pliable and we can grow it out probably in two growing seasons. So with the know-how in the warmer climates they can produce two crops a year.

Mr. SNODGRASS. Right.

Senator FORD. Whereas we can only produce one crop. So the quality of our tobacco does mean a great deal as it relates to exports.

Mr. SNODGRASS. Very definitely.

Senator FORD. Frank, I have kept you long enough. You have been a very excellent witness this morning, I assure you that if legislation is introduced we are going to have further hearings and the tax people will be brought in. We look forward to working with you in the future. Thank you.

The next area of testimony will be in the agribusiness area and he's E. Pierce Fulkerson, president, Kentucky Farm & Power Equipment Dealers Association from Louisville, Ky.

STATEMENT OF E. PIERCE FULKERSON, PRESIDENT, KENTUCKY FARM & POWER EQUIPMENT DEALERS ASSOCIATION

Mr. FULKERSON. Thank you, Senator Ford.

Senator FORD. Good morning. You may proceed.

Mr. FULKERSON. As president of the Kentucky Farm & Power Equipment Dealers Association I would like to testify in opposition to S. 3118, the Smoking Deterrence Act of 1978.

I will cite you the latest statistics from the Farm & Industrial Equipment Institute's data on farm tractors sold in the State of Kentucky for the past 2 years. These statistics, official for our industry, show the following:

Of a total of 3,769 farm tractors sold in Kentucky in the 1976–77 year, 2,256 were of the size utilized by our tobacco farmers and paid for by the receipts from the sale of tobacco crops. In 1977–78, of a total of 3,823 tractors sold in Kentucky, 2,286 were of the size utilized by our tobacco farmers. This means that almost 60 percent of the tractors sold annually in Kentucky are of the under-59 PTO horsepower class used on tobacco farms.

To destroy the tobacco industry, which I feel is the ultimate intent of this bill, is to have a great impact upon our farm equipment industry in this State. We have no statistics showing exactly what proportion of this 59.8 percent of the tractors are actually purchased by the tobacco farmers, but we feel safe in stating that at least one-third of these sales would be lost, resulting in the loss of at least 100 of our 300 farm equipment dealers in this State, should the growing of tobacco as a cash crop be destroyed. Therefore, we strongly urge you to consider the impact of this and any other such legislation which affects our livelihood and that of so many farmers in our and neighboring States and to vote in opposition to any such legislation in the Congress.

I'd like to depart from the text I gave you because I thought about it a little more and I got a little more emotional and people get emotional on both sides of these things.

Senator FORD. We need some on our side.

Mr. FULKERSON. Yes. I'll give you a copy of this for the record, but the public facilities of the Federal Government are paid for by the taxes collected from smokers and nonsmokers; if these Senators consider we who smoke as second-class citizens, unworthy of smoking in their presence, would they also consider remitting the taxes we paid toward building these buildings if we will just move out of their beloved presence when we smoke? How about a bill separating those who drink from those who don't in Federal facilities such as the floor of the Senate or the House? What about one separating those

who commit adultery from those who don't so that we will know our wives are protected? Will the next bill prohibit those who ate onions the last meal from those of us who didn't eat onions, or garlic?

Gentlemen, your priorities are away out of order and those who live in glass houses should not throw stones. To be more specific, I consider smoking a minor evil compared to the amassing of fortunes through the selling of whisky, running of rum, or yes, importing scotch. I am disappointed that these folks look so lowly at me, a smoker. I am not foolish enough to believe that smoking cannot harm me, but I am foolish enough to believe that when God gave me the right to smoke or not, the U.S. Senate has no right to forbid it nor to consider me a second-class citizen because of this fact.

I wish to express my thanks to Senator Ford for this opportunity to speak and for respecting my rights to smoke where I like. I wish him every success in defeating this bill submitted by consumer advocates. According to GSA these consumer bills are already costing the average family $2,000 per year and I'd like to say to those Senators who sponsor such bills that we are smarter than we used to be and many of us realize that we are just about protected to death as it is. We don't need any more protection. We can hardly pay the bills right now. Thank you.

Senator FORD. Thank you very much, Pierce. We will have hearings on November 21 and 22 by this same subcommittee in Washington, and we are going to try to get into what regulations and requirements by the Federal Government cost the consumer and whether or not these regulations and these new requirements have fanned inflation. We might develop some very interesting statistics.

I don't know of anybody else who has gotten into that field, but I can see that almost every time we pass a piece of consumer legislation it costs the consumer more. I found that to be a fact, and since I have been chairman of this subcommittee we haven't had any consumer legislation coming out. We have been trying to kill some measures.

Let me ask you a question here. If you lose one-third of the sales of your tractors and you have 300 farm equipment dealers in this State and 100 of those go as a result of the loss of tobacco, do you have any idea what the loss of income would be? I'm talking about jobs, taxes paid. Do you have any kind of ball park figure or educated guess?

Mr. FULKERSON. Not really. I don't know.

Senator FORD. Well, it does mean, when you talk about a total of 3,769 farm tractors sold in 1976–77, that a third of those tractors may not be sold.

Mr. FULKERSON. Right. You can figure about $7,000 per tractor in that size as an average figure.

Senator FORD. So we're talking about $700,000 annually that would be lost from just the sales of the tractors.

Mr. FULKERSON. Well, we're talking about 2,258 tractors at $7,000 each.

Senator FORD. OK. So we're getting at about $2 million, then, aren't we, roughly? I'm not sure that my figures are right.

Mr. FULKERSON. Right.

Senator FORD. I think you've made your point pretty well and I have tried to see if there's anything else from your statement that I would like to ask about.

In the sale of your equipment, if this bill goes into effect you say roughly a third of your dealerships would close. But under the present circumstances, what kind of criteria would the dealers use with the farmer in taking paper on the equipment? I don't know how you work it out, whether through a mortgage, a loan at the bank, or you give credit or whatever it might be. But if you were handling the paper—and I'm sure you do—what kind of criteria would you use as it relates to loaning him money?

Mr. FULKERSON. Well, of course, tobacco is a big thing with what we get our loans on to buy equipment with and all you have to do here, when tobacco starts selling, is get around a dealer's lot and they'll have all their equipment setting out and you see their activity when this happens. We very much depend on him and we have a third at least of our dealers strictly in tobacco country where their sales are pinpointed.

Senator FORD. So we've got two effects here. One, if we do away with tobacco, we lose a third of our equipment dealers and that has a rippling effect also; but under present circumstances tobacco does generate at least one-third of your equipment sales—the money and the loans and the mortgages and the interest and the taxes and so forth. So there is the plus side and there is the downside. So it seems if you have a downside and you have a plus side, you ought to keep the plus side.

Mr. FULKERSON. Right.

Senator FORD. Thank you very much. I appreciate you coming from Louisville today to testify and we have several more witnesses.

Representing the farm organization today is the president of the Kentucky Farm Bureau Federation, a man that resides just south of here, J. Robert Wade. Bob, we are delighted to have you this morning and I see you have your sterling silver pipe with you and it shows you're an affluent farmer and I'm delighted to have you here.

STATEMENT OF J. ROBERT WADE, PRESIDENT, KENTUCKY FARM BUREAU FEDERATION, FRANKLIN, KY.

Mr. WADE. Thank you, Senator.

It's good to be with you this morning, Senator Ford and distinguished guests and neighbors, whoever we have here.

As you know, it's not my style to read, but this morning, to get the facts across the way the farmers on our staff have put them together, I'm going to read my testimony, and then we'll ad-lib from there, if that's agreeable.

As you know, I'm a farmer and a tobacco producer from Simpson County. We in Farm Bureau sincerely appreciate the opportunity to testify in behalf of our vital tobacco industry before you today.

Kentucky farmers, I am sure, would like to thank you, Senator Ford, for bringing your subcommittee to Kentucky to hear our views on the economic importance of tobacco. Many times when tobacco matters are considered by Congress, tobacco farmers are the last to be invited. That was certainly not the case today.

I must confess to you that tobacco growers in Kentucky are just a little weary. We're not overly tired from the cutting, housing, or the first day or so of stripping our tobacco, even though those jobs are de-

manding. We're weary of the Federal Government's unceasing efforts to destroy our industry, an industry that is vital to Kentucky and important to the Nation as a whole.

Our "Califano Is Dangerous to My Health" bumper stickers are faded from the weather, but the message is clear. Misguided reformers and scaremongers like our fanatical HEW Secretary, and sponsors of such legislation as the "Smoking Deterrence Act," could bring economic ruin to a large portion of the members of Kentucky Farm Bureau. These antitobacco zealots disguise their ultimate intent by attacking such "problems" as health education to smokers, or smoking by the young. But what they're talking about is bit-by-bit annihilation of the industry. Kentucky farmers view this as a fight for our economic life; and against all odds, we do intend to fight.

To document the economic importance of tobacco to Kentucky is certainly no problem, and many of your witnesses here and in Lexington have done that quite well. Since I represent the largest farm organization in the State of Kentucky, with 205 memberships, I will focus specifically on tobacco's impact on the farmers' well-being.

Kentucky agriculture, even though among the most diversified in the Nation, is uniquely vulnerable to antitobacco crusades embodied in Mr. Califano's programs and the original proposals outlined in Senator Kennedy's bill, S. 3118. This is especially true today, following an unprecedented 18-month barrage of hostile propaganda and attempts at bureaucratic and legislative harassment from the Federal Government.

Symptomatic of the combined effect of these actions is the recent report of the Tobacco Tax Council that cigarette sales in Kentucky for the month of August were 9.8 percent below the sales level of August 1977. If that trend were to continue, and reflect a nationwide cigarette sales slump, it would be only a short time until a large number of Kentucky farmers, and other businesses and individuals in Kentucky communities with close economic ties to tobacco, would be face to face with financial catastrophe.

As an illustration of our financial stake in the golden leaf, income to Kentucky farmers from tobacco amounted to $619 million in 1977, more than half of recepits from crops, and about one-third of total cash receipts from farm marketings. Quotas for tobacco in Kentucky in 1978 are about 407 million pounds for burley, according to the University of Kentucky, and 26,500 acres for dark tobacco, both Air- and Fired-cured. Allotments are held by 143,000 burley growers and nearly 23,000 dark tobacco producers. Since most analysts say that approximately 1.5 families are involved in the production of each allotment, we estimate that more than a quarter of a million Kentucky families share in the financial returns from the State's tobacco crop.

Of course, the tobacco economy does not confine itself to Kentucky's borders. About 1 million farmers nationwide produce tobacco, or one-fifth of all farmers. Tobacco rates fifth among cash crops in the United States, and accounts for 2.4 percent of all farm cash receipts. Tax receipts for 1977 by all levels of government totaled $6.2 billion nationwide, which was about one-third the value of all tobacco products marketed. Since the mid-1930's, the Federal Government has realized $68 billion in income through excise taxes, while spending a relatively miniscule $52 million to cover losses from the tobacco price support program.

In Kentucky, tobacco dollars turn up at almost every economic junction. Attacks on tobacco are attacks on every facet of the State's economy, including government-supported services, manufacturing, wholesale and retail business, transportation, recreation, and on and on.

If tobacco were to suddenly disappear from Kentucky, perhaps the first nonfarm segments to feel the pinch would be the farm supply, warehouse, and cigarette industries. That's not surprising. Perhaps the second, however, would be the schools. And that may be surprising.

With the major impact of tobacco on the State's tax base, any significant reduction in tobacco production would have a direct impact on tax revenues. Sales taxes, income taxes, and property taxes, all of which go primarily into the State's general fund, would all be reduced. The smaller amount of revenue would then inevtiably reduce spending in all major spending areas, beginning with education, which takes nearly 40 cents of every State budget dollar and a high proportion of county tax levies.

While the nonfarm impact of an emaciated tobacco industry is great, the primary victims of antitobacco efforts are farmers. Some of today's most prominent Washington-based smoking abolitionists have said that tobacco producers can turn to other crops once the leaf market is destroyed. I assure you that for Kentucky farmers, that possibility does not exist. The notion that alternative forms of agricultural production can magically take up the slack if tobacco is eliminated is an absurd, factless fantasy.

Staff members at Kentucky Farm Bureau have determined that it would take some 3.3 million additional acres of wheat, corn, and soybean crops in Kentucky to replace the income derived from tobacco. That would mean roughly a 70-percent increase from the nearly 4.8 million acres in major crops today.

This 3.3 million estimate is based on several figures, including the following: The approximately 215,000 acres of tobacco in Kentucky in 1977 produced income totaling $619 million. That amounts to approximately $2,880 per acre income from tobacco.

The comparable per acre income figure for corn, according to the Kentucky Crop and Livestock Reporting Service, is $250, based on a yield of 100 bushels per acre, with a price of $2.50 per bushel, which is a little high today.

Senator FORD. I was going to say that.

Mr. WADE. For soybeans—again this is a little bit above the market—priced at $7 per bushel, and a 27-bushel yield, the per acre yield is $189. Wheat, at $3.50 a bushel, 35 bushels per acre, yields $122.50 per acre.

Using these figures, you can get a per acre income ratio for tobacco with each of the major grain crops, wheat, corn, and soybeans. Those ratios are, approximately, 23 to 1 tobacco to wheat per acre income ratio; 15 to 1 tobacco to soybeans income per acre ratio; and 11.5 to 1 tobacco to corn income per acre ratio.

That means, of course, that it would take 23 acres of wheat, 15 acres of soybeans, or 11.5 acres of corn for a farmer to realize the income that he gets from an acre of tobacco. These three yield per acre ratios average out to 16.5, and reflect the fact that it would take some 3,547,500 acres of the three grain crops in equal amounts to produce the farm income that 215,000 acres of tobacco now bring in. That means

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an increase of around 3.3 million acres of cropland, a reserve that is not now nor will ever be available to the farmers of this State.

In conclusion, tobacco is far more than a "leaf" out of Kentucky's history. Its economic importance to the State has never been greater. All Kentuckians have a stake in the health of the tobacco producing and manufacturing industries, either directly through farms or jobs, or indirectly as recipients of Government services that are partially funded by tobacco-produced tax revenues. If nothing else, I hope you can convince your colleagues not to take antitobacco actions lightly. Tobacco is to Kentucky what the stock market is to Wall Street, autos to Detroit, and tourists to Florida. Take away tobacco, and you've taken away Kentucky's economic soul. I fervently hope that day never comes.

Senator FORD. Thank you, Bob.

Mr. WADE. I have attached here three articles by Dr. Milton Shuffett and by Bob Miller as additional information, and I realize that the prices of wheat, corn, and soybeans were about 5 to 10 percent above today's prices, but we were taking last year's and a 5-year average on those prices where I gave you those prices.

Senator FORD. Those attachments to your statement will be included in the record so we will have those, and we understand the fluctuation of price, but you have to take the last 5-year average.

Mr. WADE. And, of course, there is a difference in the yield. There's a possibility of increased yields and there's a possibility of 10 years from now these figures can be off a little bit.

Senator FORD. I think you have explained it well, and we have had other testimony that there is no alternate crop. The amount of land use per income is miniscule compared to anything else you could try.

Do you have any idea of the total number of acres in Kentucky that would be available for tilling?

Mr. WADE. Something over 4 million acres, I believe.

Senator FORD. How many acres are in production?

Mr. WADE. That's in production now and by using some land that shouldn't be in production, increasing that by another 0.17 million, I believe. I can check that.

[The following information was subsequently received for the record:]

GOVERNOR'S COUNCIL ON AGRICULTURE,
Frankfort, Ky., October 26, 1978.

Hon. WENDELL H. FORD,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR FORD: At the request of Mr. William Kuegel, Vice-Chairman of the Governor's Council on Agriculture, I am sending you a copy of the latest Agricultural Potentials study done for the Council by the University of Kentucky.

In response to your question at the tobacco hearings in Bowling Green on Tuesday, regarding the number of total acres of cropland in Kentucky, you will note on Page 17 that, while the state has a total cropland potential of nearly 15 million acres, it has a potential cultivation base of only 5.9 million acres.

Using estimates supplied by Mr. J. Robert Wade, President of the Kentucky Farm Bureau, that there are currently 4.8 million acres in the state under cultivation in major crops and that an additional 3.3 million acres would be required to produce income equal to that which is now derived from tobacco planted on 215,000 acres, the cropland deficit can easily be seen.

Making up the difference lost from tobacco would necessitate planting row crops on land which is really not suitable for this type of agricultural production, land which should remain in hay and meadow or in permanent pasture. This, of

course, would tend to reduce the yields, and thus the income from farm production, requiring even more acres to make up the income lost from tobacco.

We are sorry we were not able to provide you with this information at the hearing Tuesday, but would appreciate it being included in the record.

Yours very truly,

SUSAN ALEXANDER,
Assistant to the Director.

Enclosure.

TABLE 2.—*Kentucky land-use potentials*

[Acreages by land classes]

Class:	Acres
I	998, 654
IIe	3, 366, 372
IIw	931, 605
IIs	139, 907
IIIe	2, 969, 619
IIIw	884, 636
IIIs	65, 182
IVe	2, 159, 540
IVw	202, 407
IVs	40, 068
VIe	2, 876, 154
VIs	304, 601
Total acres cropland	14, 938, 762
Total acres noncropland	8, 568, 729
Total acres in inventory	23, 507, 491
Total land area in State	25, 510, 881

TABLE 3.—*Cropland use potentials*

[In millions]

	Acres
Cultivation base	5.9
Hay and meadow base	5.5
Permanent pasture base	3.5
Total cropland potential	14.9

Senator FORD. So, basically, what you're saying is, if you use soybeans, if you use corn, if you use wheat, you don't have that kind of land to till; the ratio per dollar spent is way down; and, second, would this eliminate, say, the beef market? Are you including the grazing or leaving that in in your 3.3 million acres?

Mr. WADE. You would have to take land out of grazing lands to try to put in this type of production, and again these figures would be off because that land as a rule is not as productive. It will erode fast, and most of the people that are raising tobacco do not have this additional land. They are putting their tobacco on their bad land. So, when you put them in a position of using type 3 or class 3 or class 4 land and maybe class 5, they are not going to meet these production figures that we used even because these are State averages using the best production land we have.

Senator FORD. Bob, do you have the average farm in Kentucky acres?

Mr. WADE. Well, the last figure I had was 139 acres was the average size of farm in Kentucky: and, when you go to the average tillable land, it got down to around 59 acres.

Senator FORD. Per farm?

Mr. WADE. Per farm.

Senator FORD. So we are saying roughly 50 percent of the land.

Mr. WADE. I'm counting cropable land now. There's lots of that land that can be used for pasture and things like this if it's treated right.

Senator FORD. Now let's just look at the downside of this. Say the legislation is passed and the taxes on low tar and nicotine cigarettes are in place and so we have a great big push for growing a certain variety of tobacco. From county to county and area to area wouldn't you have to have a different procedure for growing tobacco in order to accommodate a low tar and nicotine leaf?

Mr. WADE. We would definitely have many problems because, as you know, there's a difference in the thickness of the leaf that's grown in the bluegrass area on the limestone soil as to what there is in the clay-based soils that we have here. We tend to grow a redder tobacco which basically has a little bit more nicotine I think than what's grown in the bluegrass area. I guess there are seven different areas—some of the tobacco buyers could tell you that better than I could—of Kentucky that you can definitely put your eye on the tobacco and tell the difference, and some of them tell me that you can tell the difference in the nicotine content from the soil it's grown in.

Senator FORD. What I'm getting to, though, is that in every county and in every area or every region in our State there is a difference. I talked about Pulaski County before you got here where we have 4,032 allotments. I just could hardly believe that—that's 1,000 more than in Warren County—and that area would be a different type of soil, a little bit cooler, higher ground.

Mr. WADE. You've got to adapt your variety to the soil that you're going to grow it on and this again would bring on more problems than we have now.

Senator FORD. What I'm trying to get to here is that I don't believe the zealots in opposition to tobacco have ever stopped to think what chaos they are really creating. If they would only realize that what we have now in the free and open market is the competition between tobacco industries in producing a low tar and nicotine cigarette—a full-page ad in the Courier Journal yesterday about another Kentucky cigarette out which is a low tar and nicotine—beautiful ad in color—and other cigarettes—you see Merit is well advertised and Viceroy is well advertised, and we now have researchers that say you can smoke 23 cigarettes of a brand and you can go to bed at night as if you hadn't smoked.

So the free and open market is adjusting and doing it itself. Kentucky is spending $4 million.

Mr. WADE. Again, lots of people smoke for the taste too and when you adopt different varieties you change the taste. You use different curing methods and you change the taste, and traditionally, worldwide, the burley flavor is what's in demand. They put it in with other tobaccos to get the taste that people like when they smoke.

Senator FORD. I had a letter that I receive recently from a senior citizen in a rest home in New York. The tax up there has created bootlegging but he didn't mention that, but he just said, "Don't let this legislation pass." He said, "I've lost everything else. Don't take my cigarettes away from me." I thought it was a right significant letter.

Mr. WADE. You know, one of the big problems we have I think in Washington is we have some people who are reformed ex-smokers and they are about like some reformed ex-drunks—they're against everything—everybody who takes a drink and everybody who smokes. So they fail to look at the facts. They get their banner and they start a crusade, regardless of who it hurts or who it helps.

Senator FORD. What we're doing here in these hearings is we're trying to balance out those who are in that position you referred to with the facts, and we do have the facts. I think we do and we are beginning to develop them to a point where I'm hopeful that we can lay these facts down and they will be an advantage to us rather than where we are now at a disadvantage with all the health-related hearings they have held and nothing as it relates to the economic impact of this legislation. And we have had testimony—Mr. Snodgrass testified earlier and he's familiar with the Washington scene and you're familiar with it and others in this room are, and there's no doubt but what this legislation will be introduced in the next session because since 1967 some sort of legislation similar to the tax-related tar and nicotine formula has been introduced, every year. So it's coming again and I hope we will be better prepared to refute those pieces of legislation.

Mr. WADE. I do want to thank you and Senator Huddleston and all of our representatives for the beautiful way that you all have handled these attacks in the past, and the only thing I can say to you is we expect you to continue to do the same.

Senator FORD. I want to give credit where credit is due. You ought to mention Congressman Natcher. Congressman Natcher had the ability in his position in Congress to withhold those funds that Califano wanted under the last budget and he brought it to my attention by telephone that the Appropriations Committee had to approve any reallocation of funds within the fiscal year and they were denied. And so then Califano could not use almost $3 million in the last budget. I think he was very effective in eliminating the antismoking money of some $29 million that he wanted this time. So let's give Bill Natcher credit.

Mr. WADE. I certainly do.

Senator FORD. I think his years in Congress have been very beneficial to this area and to this State and to the tobacco industry as a whole.

Mr. WADE. His seniority position has been very beneficial to the tobacco industry because he who pays the fiddler usually calls the tune.

Senator FORD. In January Bill Natcher probably will be either second or third ranking member in the House as it relates to the Appropriations Committee and that's very effective.

Bob, I don't have anything else because I think you have covered the spectrum very well. Do you have anything else you want to add that you can think of since you have been here?

Mr. WADE. Well, I'm sure that everybody has covered every facet. I do want to again thank you for allowing us to present our testimony and I assure you that Farm Bureau is ready to work with you and the other Members in Congress at any time and we will be in the fight all the way and we are going to win it.

Senator FORD. I assure you that this testimony we received yesterday and today will be known to those in Washington.

Now we have a group of farmers who are just out there working every day. Some of them we had the ability to contact and put on the schedule and others were reached a little late. It seems they were hard to find. You can't get them when you call them early in the morning because they are already out working and when you leave work at night they are still out working. So it's awful hard to catch them. There are a group of farmers in this room and if you will come around and sit up front here—come right on around. I think we can hear you just sitting at the seats.

Neal, it's good to see you here today. We are going to start with Neal Bishop and move right down the line so each of you can make a statement. I would like for you to give your name, your address; and if you happen to be representing a group. So if you will start off with your statement we would be delighted to hear it.

STATEMENT OF NEAL BISHOP, GLASGOW, KY.

Mr. BISHOP. Senator Ford and the committee: It's a real pleasure to be here and I'm Neal Bishop, Route 4, from Glasgow, Ky., and I feel that your efforts and the people that have spoken before have really contributed a lot to the very important survival for Kentucky.

I feel like in Barren County that tobacco is the financial artery to the well being of the people. It's a 13-month job. They're starting now for next year and finishing up this year's crop, but it's a way that they have of living and it's independence that you see when you go to the warehouse—the expression on people's faces when tobacco is sold is quite different from what you see on the faces of people in the welfare line and it could well put those in that category if we lose our tobacco by the bill which we have today.

Thank you for inviting me. It's good to be here.

Senator FORD. Neal, I appreciate your testimony.

STATEMENT OF J. B. KEY, GLASGOW, KY.

Mr. KEY. I'm J. B. Key, Route 4, Glasgow, Ky. I'm listed here among the producers.

I do live on a tobacco-producing farm, although I don't derive any income from the production of tobacco directly.

Senator FORD. Have you got your pistol on you?

Mr. KEY. I do.

Senator FORD. He's a sheriff.

Mr. KEY. I have a few things I'd like to touch on here. I came down here totally unprepared for this testimony and I'm testifying today a little out of my class, I feel, because usually there's an attorney over there to cross-examine me. I wish that Mr. Califano and Senator Kennedy and others from Washington could be here to at least listen to our side and let it come from us.

Senator Ford, you and others in Washington are doing a terrific job representing us tobacco people. As several who have spoken this morning have said, the taxes effected by any legislation would be detrimental to the tobacco industry. Not only would the taxes on the tobacco farmer be affected by reducing the values of real estate, but the warehouses and the insurance business—their taxes would decrease. I'm talking about the taxes that go to our schools and support

our counties in the State. The trucking industry would suffer. Every facet of industry and business in Kentucky would suffer. This has been brought out.

One topic that I would like to touch on here is that most of the farmers in our area depend on capital gain. What I'm trying to say is my dad and every farmer here depends quite a bit on capital gain because they put the majority of their profit, which is small enough as we all know, back into their property. If their valuation of their property is reduced, it's going to take up quite a bit of the capital gain they have relied on over all these years and my dad, along with every farmer in our community, depends on this capital gain for their retirement along with their minimum social security benefits that they will be able to draw. This would be disastrous for many of them.

They would like to stay and live out the rest of their lives on their farms. If they lose the lease power—right now they can lease this farm to the younger farmers in the area—the first thing that the lessor asks is how much tobacco. This depends on the price of the lease. Mr. Bishop leases land and I'm sure that the first question he has when he approaches a farmer about leasing some of his property is how much tobacco, because this is where the money comes from.

Our county is not geographically suited to convert to other crops for our major cash crop and I would say that 90-some percent of the land in Barren County of tillable land is in production at this time. We don't have the extra land that it would take to bring our income up to what it is now should we lose our tobacco program. It's been mentioned that they could go to grade A and dairying, but the cost of converting is tremendous. By the time you build a milk herd and start paying $1,000 a head for No. 1 cattle, I don't know of many farmers that can make the change immediately.

And another aspect of that—where are they going to find the market? Because you have to have a contract with a manufacturer. The manufacturers aren't capable of taking on any number of new customers or producers.

And I just feel that all in all, if we lose the tobacco industry, which I feel that this bill and others like it are a direct attack on, and if we lose the tobacco program, we are going to lose a tremendous amount of everything we have now. Our standard of living is going to go down. Our schools are going to go down. Everything is going to go down.

Let me say in closing that I apologize for coming down here unprepared.

Senator FORD. It sounds like you're doing a very good job.

Mr. KEY. I started two or three times and had my secretary type up some statements and then I said, well, if I go down there I can say what I've got independently.

Senator FORD. If anybody should understand taxes, the sheriff ought to understand that, but you make an excellent point about capital gain.

Mr. KEY. Again, let me reemphasize what others have said. We do appreciate the effort of all our representatives in Washington to keep this tobacco program alive and any time you need our support feel free to call on us and we'll go to Washington if we need to.

Senator FORD. Fine. Thank you very much.

STATEMENT OF ROBERT FINLEY, PRINCETON, KY.

Mr. FINLEY. I'm Bob Finley. I'm a farmer from Princeton in Caldwell County. I appreciate Senator Ford inviting us.

I've lived on a farm all my life. I started farming in Finley, Tenn. I own a 1,100 acre farm in Lyon Trigg Counties. We have a diversified program, raising 500 acres of corn and between 25 and 30 acres of burley, dark fire and air-cured tobacco.

I have five tenant houses and they are all full at the present time. This tobacco crop helps support them. I probably wouldn't need but one of them if I didn't have the tobacco to raise.

It disturbed me when I heard about this bill S. 3118. Some of these families I have known in the community and that's all they know is working in tobacco. They have children and I know where they would go if we lose this tobacco because I'd have to turn them out. They would go on welfare and you know farm families are a little larger than some of the other families and most of them have two or more children. The reason why I know they would go on welfare is something which worked just in reverse in one family. It's one of the reasons I let him work on my farm. He walked all the way from Hopkinsville, which from my farm is 26 miles. He walked all the way, wore his shoes out coming down, and had a little boy tagging behind.

He wanted to raise a tobacco crop. I checked up and found his wife and family on welfare, four of them—three boys and a girl and he and his wife, and he had a record of being a drunk. So I said to myself, well, if this guy can walk that far, maybe he's worth fooling with. So I gave him an opportunity to move with 6 acres of tobacco which he raised. The kids didn't have hardly enough clothes and they had been on welfare in Hopkinsville. Of course, they got off welfare when they moved to another county. I gave him enough daywork to live. The kids hadn't been going to school regularly. I think in the past 6 months they hadn't at all. Maybe they had been 2 or 3 months previous. These kids are going to school and work in the tobacco. They meet the bus every day. I believe they did take off about 3 or 4 days while they were cutting tobacco, but every afternon as soon as they get home from school, they change their clothes and come out to the tobacco patch and have about all the tobacco stripped.

This fellow—I asked him the other day—I just wondered—and of course he's going to stay another year. I asked him if he had had anything to drink since he has been here. He said, "Mr. Bob, I haven't had a drink since I came here. I've been offered one or two." And of course one of the boys that offered it was one of the guys who left public works last year—he thought it was better, but he's been back trying to get a job raising tobacco.

So to me this thing has worked in reverse. I've got a man here off welfare and the reason he is off welfare is his tobacco and I think he owes about $300. He's going to make some money and he's going to have some money left. The kids seem to be enjoying going to school.

I planted 500 acres of corn this year. Last year we averaged 110 bushels an acre. This year we had a drought and I think we're going to average about 35 bushels an acre. In fact, I'll be tickled if we average that much.

Our tobacco crop looks real good. We don't have as good a tobacco crop as last year but it's way above average.

I can't understand why some of the people in Washington can't see how most of the people, like these kids who work on the farm—the kids that I've worked have been raised up on the farm and if they leave and go somewhere else most of the time they make someone a good man because they've worked so hard. One of the families have a little boy 6 years old and he's out working in the stripping room. There's always something to do in tobacco, from 6 years old and up.

It's right funny, I have a 15-year-old son and he had an acre of tobacco last year. I talked to one of the old man, who's 70 years old and I would put him up against anybody in the room, and while he was out there he gave my son a chew of tobacco. I visited him the other day at school in Chattanooga and I thought maybe he had started smoking. He said, "No, I haven't, but some of us chew a little bit." So I went back and told the old man, "You know, you started my son chewing," and he looked at me and he said, "Mr. Bob, would you rather have him chew a little bit or rather get out and smoke that pot they're smoking?" I gave that a lot of thought.

I was reading the other day where farmers received in all the 20 tobacco States, $2.3 billion. The Government is receiving $6 billion, plus, out of the taxes. So, we're not actually being supported. Most of the consumers and most of the people in the city, think that they're supporting us. The Government is supporting the tobacco program, but I think we're supporting the Government.

Senator FORD. You're doing a pretty good job of it anyway.

Mr. FINLEY. One of the things I know is tobacco. One time I raised tomatoes, when I lived in Tennessee, and I had several families and we had 7 acres of tomatoes. We did well 1 or 2 years but 1 year I couldn't hardly give them away. There I was with two or three families expecting work and I told them—I had to give them something to do so I thought, well, tomatoes. We went ahead and picked them and all, but I have never lost on tobacco.

Senator FORD. With tomatoes you get a couple spots and you get docked, don't you? That's pretty tough. I've been there.

Mr. FINLEY. That's right. I appreciate this meeting and your inviting farmers. As I say, we farmers always are last but maybe we're the most important. At least my wife thinks we are anyway.

Senator FORD. Bob, as long as you can maintain that position at home, you're all right.

Mr. FINLEY. Thank you, Senator.

STATEMENT OF HAZE BALANCE, OAKLAND, KY.

Mr. BALANCE. Senator, I'm Haze Balance and I farm 12 miles north on 31. I don't have any statistics, but I've got 40 years of experience that I have been raising tobacco and I would agree 100 percent with everything that's been said.

Without the tobacco program the small farmer will just be lost and we employ a lot of labor raising this tobacco. In fact, I've got 20 women, just housewives, up there stripping tobacco now and they kind of depend on that each year to get their children clothes and stuff to go to school and it's just hard to emphasize how important it is.

Senator FORD. Well, in this day of ERA, as you indicated, you've got 20 women up there—you're doing your share, aren't you?

Mr. BALANCE. They depend on that each year.

Senator FORD. Do they handle the tobacco with more tender loving care than a man does?

Mr. BALANCE. They sure do and they will do about twice as much.

Senator FORD. I thank you very much for your testimony and we appreciate you being here.

STATEMENT OF STANLEY W. COLE, ALVATON, KY.

Mr. COLE. Senator, I'm Stanley Cole. I operate a small farm in Warren County.

I know the importance of tobacco from experience because I have been raising tobacco for nearly 50 years myself. I saw it when it was going over the floor of the warehouse and in the field and it has meant a whole lot to a small farmer and I know that from experience. Thank you.

Senator FORD. Thank you very much.

STATEMENT OF JOSEPH MENG, BOWLING GREEN, KY.

Mr. MENG. Senator, I'm Joe Meng. I operate mainly a beef cattle farm here in Warren County but we do have a tobacco base and it's been a right important part of our farm operations. I think it has allowed us to be able to hire labor, that would supplement that labor, that we could have paid the prevailing rate of labor for farm laborers to do our other part of farming. I think Haze said in his statement that he had raised tobacco for 40 years. I can attest to that because Haze was raising right close to me and he's raised tobacco ever since I've known him and he's made it an important part of his operations.

Of course different farmers in areas have difficult things they like to do. I have been through the entire thing with the tobacco industry. I have bought tobacco and worked on warehouse floors and I have seen the economy that it has brought to this country and without it I think we'd just be in terrible shape in Warren County.

Senator FORD. Thank you very much, Joe.

STATEMENT OF JOSEPH DAVENPORT, BOWLING GREEN, KY.

Mr. DAVENPORT. I'm Joe Davenport. I live in Bowling Green and have been a farmer here in the county but I retired last year, but I did it on tobacco. They brought out what tobacco does to the small farmer's crop, but it also helps the big farmer because he can take these fellows and give them tobacco and get them tied where he can keep them. If you just hire them for the day they won't show up, but if they've got an interest in the tobacco they will stay there.

Then another thing, most of those fellows you've got to finance money and they expect it without interest. The only way you can hope to get your money back is to get it out of the tobacco crop. Everybody has got to have money sometimes and that tobacco crop is the way you can get your money back.

Senator FORD. You're making some points I've known for a long time, having gone through some of this myself.

Mr. DAVENPORT. I've gone through all of it.

Senator FORD. There is a point I think maybe we're missing here and I think it's important that I say it and not let it pass. We have indicated that if tobacco is eliminated from our crop and our income in this State that a great many of our farmers would come to town and have to give up their position and go on welfare, and it indicates that they're not equipped to do a job.

Well, the farmers are experts in the growing of tobacco. It's traditional. It's handed down. The love and care of the land is handed down from parent to parent. So I don't want to leave the record with a cloud over it that if the farmers don't raise tobacco they're going on welfare because they don't know anything. They are the greatest experts in this country as it relates to 4 percent of the people feeding not only this country, but the rest of the world and they are pretty good people and they have a great deal of knowledge. So I wonder how many people from town could come to the country that couldn't make it and go on welfare. I want to reverse that just a little bit. So I don't want any impression left that the farmers are not qualified and experts in their field, because they are.

One other thing that I want to make part of the record—I don't know whether Bob Wade has left. Bob, for the record, while the farmers are here, I discussed with you earlier the average number of acres in a farm. I think you came up with about 139.

Mr. WADE. Right.

Senator FORD. It was called to my attention by one of our staff members that we may have left an impression that's 139 acres of tobacco that's grown and that is just the total number of acres with an acreage poundage allotment to that 139 acres.

Mr. WADE. That includes pastureland, tree farming and everything. If I might extend my remarks just a little further, people look at that $2,880 an acre and say, well, the farmers are getting rich. They've got 139 acres times $2,880. The average allotment is much less than what people think it is.

Senator FORD. The average allotment is less than an acre. Am I right?

Mr. WADE. It's 1,500 pounds I believe, in that neighborhood, statewide.

Senator FORD. That would be roughly half an acre, eight-tenths of an acre. Would this be a proper statement—that 70 percent of the Kentucky farmers make less than $10,000 a year?

Mr. WADE. Yes. That would be a proper statement. Now you have to qualify that. The burley system is very unique. It affords our people something that other people do not have, which is the right to raise their families on the farm and to diversify, not put all their eggs in one basket, and they may have 2,000 pounds of tobacco and dad may have a job in town and mother may have a job in town, too. But this supplemental income from tobacco has educated many of our children in Kentucky and it's provided the necessities and a few luxuries that other people enjoy on other jobs that would not be available without the tobacco. Our small farmers would definitely be out of business without tobacco in Kentucky. There's no doubt about it.

Senator FORD. Thank you. Does anybody else on the front row have anything they want to say? We thank you very much and we appreciate you coming here today and putting your statem rd.

Now if there's anybody here who would like to say something. If anybody else would like to make a statement, we would be very pleased to hear it as it relates to the economic impact of this legislation. We've got one of the younger generation coming up. Give your name and home address for the record.

STATEMENT OF LESTER HUNT, KENTUCKY

Mr. HUNT. I'm Lester Hunt and Mr. Cole called me and I didn't realize my name wasn't on the program and that's the reason I didn't come up before.

No question but what tobacco has had a larger influence on me than anybody in this room. I've made my living in tobacco and raised my family on tobacco and educated them on tobacco. In fact, I was raised in a tobacco patch and worked for the U.S. Department of Agriculture for 30-some years. I have been in Georgia, Florida, North Carolina working in Kentucky and Tennessee. There's one thing that's been completely ignored I think in this discussion. If you do away with the tobacco program you're going to do away with the itinerant farmer completely. They depend on it. It's the only money they have for Christmas, vacations, and trips they take. They all come from tobacco. When they start a crop of tobacco they start an equity in their enjoyment for that year—what enjoyment they have.

If you do not think that tobacco is a big item to keep America going, just go from one neighborhood that has tobacco as a source of income and go for a few miles to a location that does not have tobacco. When you pass through the tobacco area the houses are painted and the barns are new and they are maintained and the fences are fixed up, and you leave that tobacco locality and you go into substandard living—beat-up cars, lack of decent living facilities. I realize that tobacco is a much more important commodity than growing and selling it on the warehouse floor in this part of the country.

I have just got one more word to say which is not in relation to this. I think the people in Washington who make these regulations have completely lost the value of morality. You say that you cannot advertise cigarets on television. You can put all of the pornography and obscene views and language on television at the very choice times when children and everybody can see it, but yet you can't advertise a product that's legal. To me there's something entirely wrong under those conditions. I thank you, Senator.

Senator FORD. We have reversed judgment.

Mr. HUNT. We have lost our true values in lots of things I think.

Senator FORD. I appreciate what you have said and I appreciate your coming and testifying and I apologize for not getting you in that first group. I was kind of letting all of those come and I didn't know how many we were going to have, but I'm glad you spoke up.

I'm delighted to see this young man come and I believe you're probably the youngest fellow that's testified today.

STATEMENT OF SCOTT KUEGEL, OWENSBORO, KY.

Mr. KUEGEL. I'm Scott Kuegel. I'm from Owensboro, Ky. I'm a student here at Western and I just want to say, Senator Ford, that I really appreciate what you all are doing for us in Washington on the

problem we're having with the tobacco situation. Tobacco to me is really important because it's basically what's putting me through school. I help around the house at home and we raise a considerable amount of tobacco, but yet I get a share in trying to pay off the farm and get into the farming business. Well, I know what it means and without it there would be a lot of times I wouldn't be able to make a farm payment or probably wouldn't be able to come to school.

Senator FORD. Scott, are you saying—how old are you?

Mr. KUEGEL. Twenty.

Senator FORD. Are you saying to this commitee that you have raised tobacco with your family and you get a share of that income?

Mr. KUEGEL. Yes, sir.

Senator FORD. Does your dad charge you anything for living with him?

Mr. KUEGEL. No; not really.

Senator FORD. So you do pretty well then, and you use that—are you buying land yourself?

Mr. KUEGEL. Yes.

Senator FORD. Are you investing?

Mr. KUEGEL. Yes, sir.

Senator FORD. So as the sheriff said a few moments ago, he was relating to capital gains. Here's a 20-year-old college student who is raising tobacco, taking that money to buy land and he's developing capital gains now. He's putting it all into that. Somewhere along the way we have to stop those people who are trying, to curtail, if not eliminate, what you are doing and your way of life and your expertise and your getting your college education. So you're doing those things that make this country what it has been and what it will be.

Scott, I appreciate you coming up and I hope that we can do those things that would continue the good life for you and others. How many young people do you know that are staying on a farm today? Are we really enticing them to stay on the farm?

Mr. KUEGEL. Several that I graduated with in high school have all gone back to the farm. I know around home we have had one individual or two for sure that have lived in the city and have come back to the farm.

Senator FORD. So what you're saying to me, if the income as it relates to the farm, taking tobacco as the large cash producer—if that was eliminated, would it be tougher for the young people to make a go of it and to go out on the farm?

Mr. KUEGEL. Definitely. I feel like tobacco that we raise anyway is the backbone of us being able to farm. Without it, there would be a lot of times we would lose money instead of having the tobacco to come in and kind of equalize everything else.

Senator FORD. So you're saying that not only is it the financial stabilizer of your farm, but when you have a drought, as I think the gentleman testified to a moment ago that when his corn crop or grain crop is not too good, tobacco has the ability to do reasonably well. So this tobacco is a stabilizer. It's the saver of the farm family.

Mr. KUEGEL. Yes, sir.

Senator FORD. Scott, you're probably the most important and best witness we have had and I'm delighted that you did it with no aspersions on your older generation that's testified in front of you. Thank you very much. I'm delighted that you would come up and n

statement and I'm delighted that you could be here. I think we see both ends of the spectrum here. That's awfully good. Thank you all very much.

Are there any others who have not testified that would like to testify or would like to insert something in the record?

Let me say this. We will have a few days and if you think of something you think would be important that you would like to have in the record, we would like to do it and—Mr. Brown, do you want to testify?

STATEMENT OF EDWARD BROWN, BOWLING GREEN, KY.

Mr. BROWN. You know I was raised on blackeyed peas and I've eaten the dried peaches and I wonder if Califano and Kennedy have ever done anything like that. I think maybe the thing is, that we are not only tobacco farmers; we are food growers; and I think we're missing that. If we grow tobacco that's kind of a backup crop for us. We are not only tobacco growers; we are food growers.

You take the tobacco crop away from us, then we couldn't grow the food because it's a backup crop. You take anywhere in Warren County, a man may have a few cattle and he may have a few acres of corn and a few acres of soybeans and a few hundred pounds of tobacco, but its his tobacco that he's dependent on, but he's still using his tobacco as his backup crop and I think the only thing I have to say is I'm real proud of you and I'm proud we have still got some commonsense people representing Kentucky in Washington and being in the legislature for 12 years I know what you're going through with these committees and these hearings and the spot that you're on, and I'm grateful to you and your committee and to Dee and Bill Natcher and the people that came here today.

You know, earlier this morning I saw some people in the back, Senator, that had on their work clothes and had stooped shoulders and I know they were farmers and they went out early this morning to see that their tobacco was in order and I'm sure they left people there to handle it, but they left early because they had to get back to see that the people got the tobacco down so they could strip it. It just makes me feel good to see people come out here to pay their respects to you because you came out here trying to represent us in Washington and our State delegation here, our representatives and the farmers in the area. It just makes me feel good.

And if the "C" in Califano started with a "K," we'd call it the "KK" boys, "Kill Kentucky," and I think that's what they want to do. You don't have to worry about this Commonwealth and this country when you've got young boys like that boy that came up here.

Senator FORD. Well, we'll pass the plate now after that sermon. I'm delighted to see all of you and if there are others here who want to make a statement we will just keep continuing. That's why we're here. We want to hear you. Be sure and give your name and address for the stenographer.

STATEMENT OF GARY HUNT, KENTUCKY

Mr. HUNT. I'm Gary Hunt. I'm the son of the last one that spoke a few moments ago and I'm going to give more of a history than anything. I raised my first tobacco crop when I was 14. Dad always had

to do the market in Florida and Georgia and he'd leave about the middle of July. The two older brothers and myself—and he always told us, "I don't mind if you use my equipment and stuff if you want to raise some tobacco out on the other farms," and what we would do, we would take over dad's tobacco crop when he'd left and finish it up and get it in the barn and so forth and then we had our own tobacco crop to kind of give us a little bit of incentive, a whole lot of incentive.

Well, I started at Western when I was 18 and I continued to raise tobacco. In 1968—the reason I remember was my first child was born the same week I bought a John Deere tractor for $3,400, and I had—I think I took the John Deere tractor—it was small enough to cultivate and pull wagons and sit in the back and everything, but it was still big enough to count as a general use for hauling things and this type of thing. I took that tractor and a 4-year-old wagon and I got an old plugged colored fellow—I guess he was about 65—and there were 5 or 6 years in a row I raised about 15 acres of tobacco with virtually a $4,000 investment, and by plowing these profits back in, I managed to buy a 50-acre farm and eventually I got it paid off over a period of time and then this tobacco thing—what I was trying to come up with is an investment where you can raise tobacco, which is not prohibitive, to get into farming. That's what I'm trying to come up with.

I don't see how a fellow can start off on his own. I can see how in partnership with your father or something you can work a grain farm and do all right, but it's the unusual operator that can start from scratch and get into grain farming at today's land cost. It can be done but it's the unusual fellow that's really got the knack for the grain farming. But the tobacco, with the know-how and not being scared of work, a fellow can get a toehold in farming and I can testify to that because I feel that's how I got my toehold, was in tobacco.

I have expanded now and I've got a bigger farm and I still raise tobacco. I figure the tobacco is what's going to make the farm payment the first of January. That's what I look for to make that payment. There's a certain amount of security in it. You can figure that the price for tobacco will be there. When you raise corn or soybeans or what not you get a reasonable amount of doubt whether the market is going to be there when you've got your crop to sell, and now that I have a toehold in farming I don't feel the tobacco is as critical to me as it has been in the past 10 years, but I'm going to continue raising enough tobacco to make that farm payment.

I'm going to say here I've got an x number of dollars I need to generate some other crop. All right. Then I expand my cattle herd or I expand the hog herd. What am I doing. I'm increasing the supply in other crops and if the tobacco thing was tapered down, say there was a 30-percent cut on the amount of tobacco we could raise, these fellows that are farming, they're going to start looking for other areas to supplement that lost income. They're going to add more sows. They're going to add more cows. They're going to start milking a few more. They're going to do something to pick up the lost slack and then you're going to see surpluses even more than we have now.

If we've got a surplus of corn, you're going to have more surplus. If you've got a surplus of milk, the Government is wondering what they're going to do with, this is just going to add to it.

I can give you an example on these alternating crops. I have raised cabbage 3 years. The first year I raised it, there were thre-

producers in Warren County. Well, my wife and I—I guess more than anything else from the pride of not wanting to lose any money—we tried to eliminate any extra labor. Cabbage was coming off in late June and July where we could do a lot of the work ourselves. We worked our tail ends off to break even on the cabbage, more than anything else to kind of save face. I thought the first year—I've got to count 1 year up to experience.

Well, the second year there were two cabbage producers, myself and another producer. We didn't do anything outstanding, but we made enough money. There was potential in this. The third year, this past year, the cabbage made a real good return. I felt like it was well worth the effort I put into it this year but the thing that made it profitable this year was there was only one producer. The other two fellows threw up their hands and got out of it.

I could see with tobacco getting phased out you're going to see people saying, "Hey, what is it I need to replace this tobacco income with?" They're going to say, "Here's good old Gary over here raising this cabbage, and it seems like he must be doing good or he would have quit." The next year, instead of me having the Warren County market to myself, how many other tobacco farmers are going to be jumping in?

Senator FORD. By your statement today, you may have some competition next year, too.

Mr. HUNT. Well, I tell you, if you make it through that first year when you don't make any money and you hang in there—when a fellow loses the income in one year, he's going to—maybe some people are going to say he's going to get out. I know in the case of a fellow who's really a true farmer and getting a toehold, he's going to start looking for alternate ways of income, and the more people there are out there looking for ways of income, you're going to have that much more production in other crops.

Senator FORD. Thank you very much, Gary. I think you're a living example of the capital investment and capital gains that we've been talking about.

So, without further ado, this hearing is adjourned. I want to thank each and every one of you again for your help and support and effort, and I want to thank the staff for all their good work. I particularly want to thank the university here from the president on down, or however you want to look at it, for their hospitality in allowing us to use this room. It's been adequate and it's served our purpose, and we are very grateful for their usual hospitality. Thank you all very much.

[Whereupon, at 12:20 p.m. the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

ROBERT DRUG CO.
Richmond, Ky., October 31, 1978.

Re Your October 3rd, 1978 letter, to me, inviting me to testify, concerning S. 3118 (the Smoking Deterrence Act of 1978), at the October 23rd hearing held by the Consumer Subcommittee of the Senate Committee on Commerce, Science, and Transportation, which hearing was held in the auditorium of the College of Agriculture on the University of Kentucky campus.

Hon. WENDELL FORD,
Consumer Subcommittee,
Dirksen Senate Office Building,
Washington, D.C.

DEAR SENATOR FORD: At the time the above referenced hearing was held, I was out of the state and, therefore, unable to testify. Unfortunately, your above referenced letter was mislaid and I was consequently unaware of the hearing until after I had already made the irreversible plans for going out of the state. I sincerely apologize for this and want you to know that I appreciate your inviting me to testify.

Ms. Amy Bondurant kindly advised my secretary that, due to my being unable to personally testify, I might submit a written statement regarding the above referenced bill. I would like this letter to also serve as that written statement.

I do not feel that I can effectively enlarge upon the testimony that was given at the hearing. Having been made aware of the content of said testimony, I must say, without qualification, that I agree with the arguments and sentiments expressed by those opposed to the passage of S. 3118. I strongly oppose this legislation. Any efforts you might make, to prevent passage of same, would be appreciated.

Thanking you, once again, for inviting me to comment, I remain

Sincerely yours,

ROBERT B. REGLEY,
Chairman of the Board.

THE TOBACCO DILEMMA

(By Wendell Berry)

For anyone who wishes to see the small farm survive and thrive, the case of the small tobacco farmers is as intricate and troubling as any you can find. Tobacco has become an easy crop to dislike. It is an unnecessary product, unhealthy to use. But does that require us to dislike the people who grow it? I don't think so. It may seem easy for me to say that, because I live among people who grow tobacco, and I have a small income from it myself. Living so near the crop, however, does give one a sufficiently complex awareness of its human importance. People who don't live in tobacco country, it seems to me, are finding it too easy to condemn the producers with the product.

As an example of what I mean, consider a "solution" to the tobacco problem that a task force recently proposed to the Secretary of Health, Education, and Welfare. According to the Louisville Courier-Journal of Nov. 2, 1977, this task force, headed by the Surgeon General, proposed to repeal the Federal price support program for tobacco and to replace it with a "direct social welfare program for small tobacco growers to ease their losses in transition from a subsidized to a free market system, including funds for re-education." Among other things this program would provide the impoverished growers with food stamps. The "re-education" would presumably be a part of an effort, subsidized by Federal loans, to prepare farmers to grow other crops.

This proposal, of course, was made in the name of health; it is a part of the anti-smoking campaign. But we should recall that NO public proposal is ever

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made except in the name of some worthy cause. In fact, this one can have no effect whatever on health problems related to smoking, but would do incalculable damage to the health of families and communities in several states.

One should note, to begin with, that the Surgeon General and his colleagues do NOT propose to outlaw the growing and marketing of tobacco—much less the manufacture and use of tobacco products. They propose only to eliminate the price support program. If this should be done the tobacco industry would continue as before; smokers would continue to smoke as before; the relation of tobacco to health would remain exactly the same. The only difference would be that small farmers would be quickly priced off the tobacco market and forced, as the Surgeon General correctly anticipates, onto welfare. The manufacturers' quotas would be filled by a few large, highly mechanized producers and/or by imports.

What is this price support program that the Surgeon General proposes to repeal? It is a system, freely subscribed to by the tobacco growers in a referendum every three years, by which they limit their production in return for a market price which is set by the government. If the tobacco companies do not bid up to the set price, then the tobacco is taken under loan AT the set price by a cooperative, which then markets it, frequently abroad, and repays the price support loan. The combination of price supports with production controls has made the tobacco program uniquely successful. It is, indeed, a model program. It has not produced expensive surpluses, it has not subsidized overproduction, and it HAS kept the small farmer on the farm through several decades notorious for the virtual extinction of small farmers in other parts of the nation. It is a program conceived to protect the small farmer in the marketplace, and in doing so it has preserved a great resource at small expense. (According to Secretary Bergland, the program costs "75 million dollars to administer, and it generates maybe six billion dollars in tax revenue. . . ."

Dependent on this program are 600,000 tobacco growers (mostly small farmers) and their families—perhaps as many as 3,000,000 people. Obviously then, the cost of putting them all on welfare would far exceed the cost of their welfare payments. What is the total social and monetary cost of uprooting or demoralizing a family, of breaking up a community? We do not know. We know only that many generations may pass before it is paid in full.

It is rare nowadays to run across anyone who would argue that tobacco is a good or a healthy product. Among the most ardent defenders of the tobacco price support program there are many who wish that a different staple crop could be found for the small farmers of their region. But they know that, now, the survival of those small farmers is dependent on tobacco—though the production of tobacco is NOT dependent upon the survival of those small farmers.

A CROP THAT DEMANDS MUCH LABOR, LITTLE LAND

Perhaps the outstanding characteristic of tobacco as a crop is that it requires much labor and little land. This has made it almost an ideal crop for a small family farm, which has its own labor force, and which may have only a few acres suitable for cultivation. The price support program has made it possible for a family to make a substantial income from only a few acres of tobacco. To assume that tobacco can be satisfactorily replaced by just any other crop is therefore dead wrong. To suggest, as Senator Birch Bayh recently did, that it can be satisfactorily replaced by corn is not only wrong but absurd. To get a livable income from corn requires an acreage many times that required by tobacco, and, because it is not protected on the market by production controls and price supports, even vast acreages of corn are now failing to produce a livable income. To make 600,000 tobacco farmers dependent on corn would be a disaster both for them and for the present corn farmers.

But that is not all. Much of the farmland on which tobacco is grown is rolling or hilly clay land, highly subject to erosion. In my own part of the tobacco belt, it is likely that no more than 10 percent of the land can be safely put into cultivation in any one year. With tobacco as the staple crop in a diversified system keeping most of the land in grass, it is possible to cultivate no more than that. Without tobacco—or a crop equivalent to it in per-acre value—much more land would have to be broken for row crops, and thus exposed to the rain.

Finally, it must be considered that tobacco is one of the most labor-intensive crops now being grown. Though production standards have declined in recent years, it is still extraordinarily demanding of care and skill. Moreover, farms

on which tobacco is grown are in general more diversified than those, say, in the grain belt. Tobacco growers, therefore, tend to be highly capable and versatile farmers. They are also extraordinarily thrifty and independent: according to the Agricultural Statistics Yearbook for 1976, North Carolina, a tobacco state, was first in the value of farm products consumed on the farm; Kentucky, another tobacco state, was fourth. To remove these people from farming would be to squander an invaluable resource. To make them dependent on welfare—on food stamps indeed—would be to abandon all hope of sense or sanity.

The tobacco program is not a subsidization of smoking. It has nothing to do with smoking and health; smoking will continue whether or not the tobacco is grown by small farmers. The program, in intention and in effect, is a conservation program. It conserves the small farmer and the small farm. It conserves land. And it conserves a fairly high quality of agricultural character and know-how.

Like many friends of the tobacco farmers, I long for the day when tobacco can be replaced by other, healthier crops. I share that hope with the Surgeon General. But his proposal will not advance that hope. It will not do away with tobacco. It will do away with tobacco farmers.

The price support program for tobacco should be continued, for the simple reason that it makes sense. Meanwhile, since tobacco is, in fact, neither a healthful nor a necessary product, we need a careful program to replace it.

We need to develop a different small-farm economy to support the farm families now dependent on tobacco. This will not be easy. As David DeBuisson recently wrote in The Sentinel of Winston-Salem, North Carolina, it will require "a radical chane in the food distribution system to provide a local or regional market for vegetables or fruit crops. It will require an equally radical change in farmer attitudes, and a considerable amount of education."

And one might add that it will require a highly diversified farming, involving both plants and animals, that will not force too much of the land into cultivation.

That is a difficult possibility, but it is not hopeless. It is infinitely better than knocking the economic props out from under 60,000 farmers, and then expecting to "educate" them. THAT is hopeless.

[Editor's Note: This article reprinted from the magazine Organic Gardening and Farming, with permission of the publishers and the author, Wendell Berry. Article furnished through courtesy of Burley Tobacco Growers Cooperative Association, Lexington, Kentucky. The author, who farms at Port Royal, Ky., is a staff member of Organic Gardening and Farming, published by Rodale Press, Inc., Emmaus, Pa. He is a well-known Kentucky writer, and a former teacher at the University of Kentucky.]

Statement of the Greater Lexington Area Chamber of Commerce

The Greater Lexington Area Chamber of Commerce appreciates the opportunity to provide some commentary for the record as part of the hearings on SB 3118 "Smoking Deterrents Act of 1978."

For your information, the Lexington Chamber of Commerce is the largest business organization in Central Kentucky representing some 1,425 member firms. These business members are professionals, retailers, wholesalers, manufacturers, tobacco firms, general services, financial enterprises and many, many others.

Approximately eighty percent of our membership is composed of small businesses and individual proprietorships. Thirty business executives comprise our board of directors, who conduct the business of the Chamber.

At the last regular meeting of the Board of Directors, there was discussion regarding SB 3118 which would appear to further regulate, tax and control the use of tobacco by American citizens. The Board moved and unanimously approved a motion that the Chamber go on record as being opposed to any additional regulations or taxes on the tobacco industry.

This bill is viewed not only as a further unnecessary regulation and taxing of the industry, but as a further encroachment of government into the personal lives and habits of its citizens.

A quick look at the contribution of the tobacco industry in the Lexington SMSA (Standard Metropolitan Statistical Area) shows the following:

In 1978 tobacco growers made expenditures in plant and equipment in the following amounts:

Fertilizer and lime	$3,760,000
Pesticides	195,000
Chemicals	276,000
Fuel	1,159,000
Machinery repairs	995,000
Hired labor	7,907,000
Machinery purchases	6,178,000
Barn costs	7,248,000

The total of the above amounts to $27,718,000. In the market last year, total sales amounted to $140,272,655. This money impacts the entire Central Kentucky area because it goes into the hands of so many small producers and is spent immediately. It should be noted that these figures are for only the six county SMSA.

Tobacco stored in Lexington is valued at $321 million this year and generates taxes for the city of Lexington and the Commonwealth of Kentucky.

In addition, tobacco companies have some $48 million in facilities built in Lexington which generate property taxes for the local community and provide an average of 1,000 jobs. These jobs with our processors generates a payroll of approximately $10 million annually.

In addition to the 1,000 jobs provided by these processors, there are approximately 4,000 other jobs provided by warehouses and farmers producing the tobacco.

In the December 1977 issue of the Chamber of Commerce magazine Lexington, there is an article that delves into some detail as to the economic contribution of tobacco to our local economy.

The article appears on page eight. We would like to enter this publication into the record.

In reviewing SB 3118, it becomes apparent that this is another attempt to saddle an industry with additional costs which either must be absorbed by that industry or passed on to the consumer.

[From Lexington, December 1977]

TOBACCO—THIS MARKET MEANS MILLIONS TO LEXINGTON

Each year shortly before Thanksgiving, the warehouses that have stood silent for so long suddenly come to life. The tobacco sales season has arrived. Burley tobacco, and lots of it. In the next ten weeks more burley tobacco will be sold in Lexington than anywhere else on earth.

The golden leaf, fifth largest among American cash crops will be responsible for adding over one half billion dollars to the Kentucky economy. That represents a major investment to this community's fiscal well-being. But for some reason this major "industry" does not receive the attention that it deserves.

A one half billion dollar industry deserves attention.

Jack Lewyn, executive director of the Council for Burley Tobacco, offered an explanation for this phenomenon. "We're a unique industry," he said. "Tobacco is enormously complex yet an international industry with diverse interests and by it's very nature is fragmented."

He almost lost us right at the start, but we asked him to convert that mouthful into bite-sized chunks. Basically we learned that the industry is comprised of farmers, warehousemen and producers. As you might expect, each of these industry segments have their own set of priorities.

It is the farmers, or growers of the crop, who are responsible for the activity that is readily visible during the selling season. They bring their annual crop to Lexington (or one of over thirty other markets in Kentucky) for auction in one of thirty-three local warehouses. Not unlike farmers from across the nation, their profit margins are low. They are interested in receiving the highest possible price for their crop.

Seventeen firms or corporations own the warehouses scattered around the city. The first one in 1906 was opened by Charles Bohmer, a Virginia native who settled in Lexington. The original stood on South Broadway at Pine Street but was destroyed by fire in 1957. There are many prominent persons associated with warehouses, some still bear the name of the founder. Among them are Dr. Sam Holly (Fayette Tobacco Warehouses) and Morgan Gentry.

Charles Marshall, an experienced officer and member of the Tobacco Board of Trade, described the auction process.

"The Tobacco Board of Trade determines the schedule for the selling of tobacco in the warehouses," he explained. "We get our selling time based upon the number of 'spots' on our warehouse floor."

A "spot" simply means the number of positions available to display a basket (tobacco stacked for ease of handling and inspection) for the buyers. There are 84,000 "spots' available in Lexington.

"This is the way it works everywhere," Marshall added. "At my warehouse, the manager, Brown Sharp, acts as the one who supervises activity."

How do the farmers decide where to take their crop for sale? Marshall explained, "The best method is personal contact. Other warehouses have tradesmen in other towns. The larger houses will have several solicitors or tradesmen.

"After the tobacco is in the warehouse, government agricultural inspectors will grade the tobacco according to quality. We act as an agent for the grower with the buyers."

Thanks to the early television efforts of the American Tobacco Company (for those who are over thirty) most Americans are familiar with the melodic chant of the auctioneer. His sing-song voice echoing through the warehouses of Lexington is as pleasant as the ring of any cash register on Main Street. Last year alone Lexington's warehouses racked up sales of over $114.8 million.

THE MONEY MEN

Who brings this $114.8 million to town? The tobacco manufacturers and dealers. Some of it is here all year in the guise of dealers such as G. F. Vaughan Tobacco and Southwestern Tobacco Company, a subsidiary of Universal Leaf. Dealers, which include the Dibble Brothers (North Carolina), Parker (Kentucky), J. C. Monk (North Carolina) and Austin (Tennessee) act as buyers for any number of clients in this country or abroad.

A publication of the Tobacco Institute (Washington, D.C.) about Kentucky burley tobacco notes that since the early national period, Kentucky tobacco has had foreign outlets. The types now exported—and for more than the past century—differ from those that reached European importers via the Mississippi in the late 18th century or went first to eastern ports of the United States from early in the 19th century.

Burley tobacco is shipped to all continents. West Germany, Sweden, Italy, Denmark, Switzerland, Netherlands and Japan are major buyers. World-wide consumer use of all tobacco commodities rose or was maintained in recent years. Kentucky tobacco, much of it prized burley, is to be found in all of these products.

The United States is the leading tobacco exporter and the third largest tobacco importer. Recently about thirty-five percent of the U.S. tobacco crop has been exported. In 1976, U.S. exports of leaf tobacco and manufactured products totaled some $1.46 billion, a record high. Imports came to approximately $316 million. The difference represents a positive net contribution of over $1.1 billion to the U.S. balance of payments in calendar year 1976.

The other link in the tobacco buying chain is composed of manufacturers who buy for their own usage. These are the large corporate names familiar to almost everyone. R. J. Reynolds Tobacco, American Tobacco, Phillip Morris, Liggett, Brown & Williamson and others.

The tobacco that is on the market is graded by government agricultural inspectors by quality standards. They establish a minimum (or guaranteed value) price for each grade of tobacco. This insures that the grower will receive no less than the specific price established for that grade of leaf. If bids for the leaf do not go higher than the support price, the tobacco is purchased by the tobacco "pool" financed by the federal government and stored until the demand creates a higher price for the leaf.

This tobacco support program is widely misunderstood. Unlike other price supports, the tobacco program is not a subsidy. It's a type of government loan, and businessmen should recognize the difference. Virtually every other business operates with credit.

Jack Lewyn of the Council for Burley Tobacco added, "Because of enabling legislation and growers in the tobacco states, the USDA Commodity Credit Corporation in effect borrows the money and price supports are effectively applied.

"The price support program is not a subsidy. It was first applied in 1941 for the balance of the 1940 crop. It's more of an effective borrowing program than a subsidy. In fact, it's one of the few programs in which growers can take their product to the market and be assured of a fair price.

"The manufacturers," Lewyn says, "still create the demand for the product which has a great deal to do with establishing the price. Always the grower has taken his product to the market (before the support program went into effect) but instead of setting his own price it amounted to a "what-will-you-give-me-for-it" situation. This was a tragic procedure.

Lewyn related that in the early days buyers were treated like royalty while the humility of the growers was astounding. Stability to the industry was achieved with the implementation of the price support program in 1941.

Jack Lewyn is a fascinating man with a diverse occupational background. He has lived in Lexington since 1945, transferred from Louisville by the Associated Press. A native of Wheeling, West Virginia, it was there that he had his first contact with the world of tobacco.

Lewyn describes it this way: "Covering the burley belt for the AP was most interesting. I was transferred to Baltimore but I had lived in Lexington for two years too long. I had to come back."

A veteran of the second world war, Lewyn joined the Burley Tobacco Growers Cooperative in January of 1962 as vice-president for public affairs until assuming his present position in 1975. Married and the father of three children, Lewyn lives a busy yet rewarding life. The man knows about tobacco, and while too modest for his own good, obviously performs a vital service for this diverse and highly important industry.

He perceives the role of the Council as that of "communicator." Their function is to provide a medium for communication. They tell the tobacco story to others.

"Sure," he admits, "we have problems. Some inside and some on the outside, but we are addressing those problems in an orderly, responsible manner. One reason that the tobacco industry has succeeded to the extent that it has is that the growers have responded to the needs of the industry. The grower cares. And he's very effective."

In Fayette

While the figure of $114.8 million dollars from the sales floors is most impressive, so are the production figures for Lexington and Fayette County. While we may tend to think of Lexington as an ever-expanding urban area, the amount of land devoted to agricultural use is substantial.

Over thirteen million pounds of the great leaf was grown in Fayette County last year which brought $16 million at the market. While industry sources put the figure at $500 million circulating through the local economy, obviously the Fayette County production's $16 million stayed here at home.

Bright Burley

Through a fortunate accident of nature—assuming that there are "accidents" in nature—a revolution took place in the farming of tobacco with the discovery of "bright" or "white" burley. The Tobacco Institute records that on a since forgotten day in the spring of 1864 two Ohio tenant farmers were seeding tobacco beds when they ran short. Crossing the river to Bracken County, Kentucky, they acquired seeds of "Little Burley."

The seedlings that consequently developed were sturdy and of fine texture, but the color was a bright yellow. Believing that the plants were defective they destroyed them. In the following season some of the seeds obtained from the Kentucky supplier were again sowed. When they displayed the same traits, an imaginative farmer transplanted about a thousand of them. In their maturity the plants, described then as "healthy and thrifty" had an unusual stalk and broad leaves of pale green.

These "freak" tobacco plants caused quite a sensation. When cured, the leaf was a bright yellow or cream color but the experts said that it smoked "bitter." Ultimately the development of this new "white burley" created a product that brought an excellent price. The spread of this new type was rapid, especially through Lexington and Central Kentucky. White burley was "in" and the rest is history.

CONCLUSION

Burley tobacco is prized for its "poracity," that quality which allows it to be very absorbent and an ideal leaf for sweetened, flavored or treated tobacco products. Plant pathologists have improved the breed over the years whereby the poracity of the plant preserves the moisture, flavor and aroma of the leaf.

It is this quality which makes it vital to the production of the modern American blended cigarette.

Kentucky, with it's firm place in the national economy and enviable position among the burley belt states, has enjoyed the success brought about by the production of this golden leaf crop. Lexington, as the center of the burley auction markets, has perhaps benefited the most from the success of the tobacco industry.

So while you may only take note of the heightened activity around the warehouses during the selling season, don't forget that the tobacco industry is a year-round asset for the Lexington area. Growers, suppliers, warehousemen, agents, buyers and manufacturers make up this diversified, complex yet vital industry that is quite important to the local community.

A one half billion dollar industry deserves attention. It has ours, give it yours.

Tobacco in Kentucky's Economy

(By Robert H. Miller) [1]

Tobacco culture was brought to Kentucky with the beginning of settlement in the late 1700's and for many years tobacco has been Kentucky's chief cash crop. Over the years, marketing, processing, and manufacturing facilities have been developed for Kentucky tobacco along with a host of service and supply industries and a price support and marketing quota program for growers.

Production and Marketing

Tobacco is Kentucky's chief cash crop. About 100,000 Kentucky farms have income from tobacco, and this provides important employment for the work force of 136,000 family and hired workers on Kentucky's farms. Tobacco has a high cash value and 1977's crop brought growers about $572 million. For many years it has been the leading source of cash farm income, accounting for 30 percent in 1976. Tobacco is particularly important on small and medium-sized farms of which Kentucky has a very large number.

With about one-fourth of the U.S. tobacco crop, Kentucky leads the States in burley tobacco production and ranks second to North Carolina in total tobacco production. About 30 percent of U.S. farms growing tobacco are in Kentucky.

In spite of the economic importance of tobacco, only a relatively small number of acres are needed to meet the demand. The total tobacco acreage in Kentucky (arount 200 thousand acres per year) is only about 4 percent of the acreage of principal crops harvested and 2 percent of the total cropland of the State.

Present legislation provides for price support for any crop of tobacco for which growers approve marketing quotas (by two-thirds majority). Kentucky tobacco allotments (primarily burley) have an estimated capitalized value to their owners of about $950 million. This value represents about 11 percent of the total value of Kentucky farm real estate (land and buildings).

About 94 percent of Kentucky's tobacco is burley. The balance is fire-cured and dark air-cured types. The various types of tobacco are grown in certain well-defined areas where the soil and climate have been found to yield a product with properties desired for manufacture or for export. In addition to the factors of soil and climate, the methods of growing and handling are largely determined by the kind of leaf required by the trade. Dark tobacco, grown in the western part of the State, is less important in production and trade than formerly, but farmers in every Kentucky county grow burley tobacco.

Despite the small acres required, tobacco is an important employer of farm labor. About 300 man hours are required to produce and market an acre of tobacco. In Kentucky, the tobacco enterprise accounts for about 28 percent of the hours of farm labor. Burley production remains unmechanized so tobacco has maintained employment in Kentucky's agriculture, while technological developments in other crops have released farm labor to other uses. For the 1977 crop, total labor cost (hired and unpaid family labor) represented about $165 million.

In addition to providing steady income and employment for the farm sector, tobacco production supports sizeable service and marketing industries. For example, Kentucky farmers purchased fertilizer, gasoline, petroleum, machinery, custom and contract work. Based on cost and returns data for field crops cash

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[1] Project Leader-Tobacco, Commodity Economics Division, Economics, Statistics, Cooperatives Service, U.S. Department of Agriculture, Washington, D.C., Prepared January 1978.

production expenditures usually equal about one-fourth of the cash receipts from the tobacco crop. So the outlay for the 1977 crop was about $145 million.

Virtually all the Kentucky tobacco crop is sold to manufacturers, dealers, and exporters at 221 warehouses at 32 auction markets. Lexington is the largest tobacco market in the United States with 24 warehouses and its accounts for about 20 percent of Kentucky's sales. Warehouses employ numerous actioneers, handlers, weighers, bookkeepers, and clerks to move tobacco quickly through the sales. The auction season length varies from year to year but burley markets open in late November and the season ends for fire-cured sometime in March.

Manufacturing

Tobacco and tobacco products is the third leading manufacturing industry in Kentucky, ranking after electrical and electronic equipment and food. Value added to production of about $496 million is about 9 percent of the total for Kentucky's total manufactured products. This figure represents the value created in products by Kentucky's manufacturers, not counting such costs as materials, supplies and fuels.

Among the States, Kentucky ranks third in value added by tobacco manufacture. Most of Kentucky's value added is in 3 cigarette plants in Louisville, but the more numerous steaming and redrying plants are an important processing step. Kentucky also has a cigar factory and 5 plants for chewing and smoking tobacco. In Kentucky, 17 redrying plants operated in 1972 and employed about 1,600 employees with an annual payroll of about $9 million.

In manufacturing, burley is used principally for blending with other tobaccos in cigarettes. The heavier, darker leaves usually are used for smoking tobaccos. Fire-cured leaf is used chiefly in the manufacture of snuff, specialty cigars, smoking tobacco, and dark cigarettes in a few countries. Dark air-cured tobacco is also used in every form of smoking.

For burley, the chief kind of tobacco grown in Kentucky, about 80 percent of the crop is used in U.S. cigarettes, 5 percent in other tobacco products, and about 15 percent of the crop is exported. A larger share of fire and dark types goes overseas.

Cigarettes acount for about four-fifth's of the tobacco consumed in the United States. Only 3 States manufacture cigarettes and Kentucky ranks third after North Carolina and Virginia in cigarette production. Kentucky's cigarette factories product about 20 percent of the Nation's cigaretes and employ about 9,500 with an annual payroll of $26 million.

In terms of Kentucky's employment, tobacco products plants have about 12,000 employees, or about 4 percent of those working in manufacturing. As a share of value of output, labor cost is low relative to other industries because of a very high degree of mechanization in tobacco plants.

Farm and Manufacturing Value Combined

The value of tobacco production by farmers and value added in manufacture accounted for by tobacco and tobacco products ($795 million—1972) represents about one-tenth of the value of goods produced in Kentucky ($7.7 billion). Measured by employment, tobacco farming, in terms of full time jobs, and manufacturing accounts for about 4 percent of Kentucky's employment of 1.3 million. However, the total number receiving income from tobacco is substantially larger because of the seasonal nature of farm production, selling, and redrying operations.

Exports

About 18 percent of the Kentucky tobacco crop is exported to foreign countries as unmanufactured tobacco. Value is about $112 million. The remainder is used by domestic manufacturers, but tobacco products exports, principally cigarettes, represent additional foreign trade so the Kentucky leaf and leaf equivalent in product exports represent about 25 percent of the crop.

Taxes

Tobacco is heavily taxed by the United States government and State and local government. Federal, State, and local governments tobacco taxes represent about 36 percent of consumer expenditures for tobacco products. Virtually all the taxes are collected on cigarettes. Nationally, excise taxes are about 3 times the amount U.S. farmers receive from the tobacco they produce.

Historically, taxes on cigarettes are levied with Federal rates fixed on a per thousand basis and State and local governments on a per pack basis. The current Federal tax rate is $4 per thousand or 8 cents per package of 20. State cigarette taxes averaged 12.8 cents per pack in late 1977. Taking into account the tobacco contained in cigarettes, the tax rate is equivalent to $5.90 per pound of cigarettes. Comparable rates on other tobacco products are substantially lower.

With a relatively low tax of 3 cents per pack, Kentucky received about $22 million in tobacco taxes this past fiscal year, or about 1.2 percent of State tax revenues. Kentucky smokers' cigarette purchases included $63 million in Federal excise taxes (paid by manufacturers).

Economic Importance of Tobacco in Kentucky[1]

(By D. Milton Shuffett)[2]

The most important aspect of tobacco as an economic commodity in Kentucky is its importance as a source of cash farm income. Cash receipts from farm marketing of tobacco in Kentucky have been about $500 million during recent years, and tobacco sales account for fore than 50 percent of the receipts from crops and nearly one-third of total cash receipts from farm marketings in most years.

Quotas for tobacco in Kentucky for 1978 are about 407 million pounds for burley and approximatelly 26,500 acres for dark fire-cured and dark air-cured types. Allotments were held by 143,000 burley growers and nearly 23,000 dark tobacco producers.

In terms of people sharing in the returns from farm sales of tobacco, it is estimated that the average number of families involved in the production of each allotment is approximately 1.5. Consequently, more than 250,000 families share in the production and the returns from the state's tobacco group.

In producing tobacco, farmers are involved with out-of-pocket cash costs for cover crops, plant bed materials, insecticides, fuel, chemicals, gasoline for machinery, machine repair expenditures, and hired labor. Producers usually spend, on the average, about 35 cents per pound for direct cash costs involved in producing tobacco. Indirect expenses associated with barns, sticks, depreciation on machinery and equipment, and miscellaneous overhead costs would run another 35 cents per pound, on the average. At a cost of 70 cents per pound for production costs (excluding family labor and land and quota use), the average expenditure of Kentucky tobacco producers for production supplies would amount to approximately $325 million per year. These expenditures reflect direct purchases from local businesses and labor and contribute substantially to the economy in local areas where tobacco is produced.

The average labor requirement per acre of tobacco produced and marketed is approximately 300 hours. Kentucky's tobacco production furnishes employment equivalent to approximately eight million man days per year. This would be the equivalent of about 39,000 full-time jobs per year. Approximately two-thirds of the labor used in burley production is family labor and one-third is hired labor. Nevertheless, if tobacco production were not available as a source of employment to hired and family workers, these workers would need to find alternative jobs; nonfarmjobs for the most part.

Tobacco marketing is carried out through more than 200 looseleaf tobacco warehouses located in 30 market centers throughout the state. Investment in the marketing facilities is estimated to average about $300,000 per warehouse, with a total investment in first marketing facilities of about $60 million. Producers pay approximately $25 million per year for marketing of the crop; this marketing cost goes for buying supplies and equipment for the warehouses, hiring labor for handling the crop in the warehouse floors, advertising, etc., and represents money generated and spent in the local market centers.

Kentucky has 11 stemming and redrying facilities for processing tobacco for storage after it is sold on the looseleaf warehouse floors. These facilities

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[1] Data were assembled from secondary sources including USDA Reports, Kentucky State Department of Agriculture Reports, and publications from the Tobacco Institute. In cases where data were not available, estimates are those made by the author.

[2] Professor and Vice Chairman, Department of Agricultural Economics, University of Kentucky, Lexington, Ky.

normally hire local people and represent an important source of employment and income for the area.

In addition to sales warehouses and redrying facilities, tobacco marketing involves considerable economic activity in the process of transporting tobacco crops from the farms to warehouse floors, from warehouses to stemming and redrying facilities, and from redryers to storage facilities where the tobacco is aged until it is ready for use in manufacturing.

Approximately 56,000 production workers are involved in the tobacco manufacturing industry in the United States. More than 10,000 production workers are employed in tobacco manufacturing establishments located in Kentucky.

In addition to manufacturing workers, large numbers of employees are used in the storage, merchandising and distribution of tobacco products after they are manufactured. There are nearly 3,000 wholesale firms and about 1.35 million retail firms that handle tobacco products in the United States. Many of these firms are located in Kentucky because of the production and manufacturing industry in the state.

The manufacturing industry has implications for many segments of the economy through the purchase of such supplies as cellophane, aluminum foil, printed packages and cartons and paper. It is estimated that in the nation more than 1.5 million businesses share in the tobacco trade and in supplying equipment, transportation, advertising, mechandising, and services.

An important part of Kentucky's tax revenue comes from tobacco products and the tobacco industry. In fiscal year 1976–77, Kentucky collected $22.2 million in excise taxes and from sales of tobacco products. This is in addition to sales taxes and state and local property taxes collected on farmland with higher value due to tobacco allotments and on warehouses, manufacturing plants, and storage warehouses and facilities.

Tobacco allotments have an important impact on farmland values in many areas of the state. It is estimated that the average value of a burley tobacco quota is approximately $3 per pound (farms with quotas sell for an additional $3 for each pound of burley allotment). Kentucky's 423 million pounds of burley quota in 1977 had the effect of increasing farmland values in the state by approximately $1.2 billion—an important contributor to land values and assessment for local tax purposes.

In summary, agriculture, agribusiness, and state and local governments are heavily dependent on tobacco production, marketing, manufacturing, and distribution as a source of employment, income, and tax revenue.

Economic Contributions of Burley Tobacco to the Economy of Kentucky Counties

(By D. Milton Shuffett)[1]

The attached tables provide estimates of a part of the nonfarm economic activity associated with burley tobacco production in Kentucky counties. The estimates were made by using 1978 quotas and average costs for the various categories of inputs shown, and by assuming that yields per acre were the same for all counties.[2] While actual costs and yields will vary between counties, the data should provide reasonable estimates for determining the impact of tobacco on the local economy.

Some categories of costs are not included in the estimates because they are minor relative to total costs or may not be used by all producers. For example, plastic and cotton covers, fuel for curing, irrigation costs, custom operations and crop insurance were not included. Marketing costs were excluded because marketing does not always occur in the county where the tobacco is produced.

In using the estimates for an individual county, the data shown could be adjusted upward or downward for added cost items in production, marketing costs, and any transportation, redrying, green-prizing, of manufacturing that may occur in the county.

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[1] Professor and Vice Chairman, Department of Agricultural Economics, College of Agriculture, University of Kentucky, September 1978.

[2] Costs of Producing Burley Tobacco, 1976, Verner Grise, ESCS, USDA, March 1978.

ECONOMIC CONTRIBUTIONS OF BURLEY TOBACCO TO THE ECONOMY OF KENTUCKY COUNTIES

[Values shown are in thousands of dollars]

	Adair	Allen	Anderson	Ballard	Barren	Bath	Boone	Bourbon
Number of quotas	2,558	1,989	1,164	1,075	3,523	1,159	1,612	1,303
Basic quota (thousands)	4,633	3,487	3,378	2,683	12,191	6,316	3,115	11,683
Expenditures for:								
Fertilizer and lime	296	223	216	171	779	404	199	247
Pesticides	15	12	11	9	40	21	10	39
Chemicals	22	16	16	13	57	30	15	55
Fuel	91	69	67	53	240	124	61	230
Machinery repairs	78	59	57	45	206	107	53	197
Hired labor	623	469	454	361	1,638	849	419	1,570
Machinery purchases	486	366	355	282	1,280	663	327	1,227
Barn costs	571	430	416	331	1,502	778	384	1,439
Hours of labor used (thousands)	635	478	463	368	1,670	865	427	1,601
Labor years equivalent	305	230	222	177	803	416	205	769
Value of quota (millions)	$13.9	$10.5	$10.1	$8.0	$36.6	$19.0	$9.3	$35.1

	Boyle	Bracken	Breathitt	Breckenridge	Bullitt	Butler	Caldwell	Calloway
Number of quotas	1,107	1,029	1,015	2,078	855	782	927	698
Basic quota (thousands)	4,609	6,444	1,323	7,243	1,343	798	1,102	508
Expenditures for:								
Fertilizer and lime	295	412	85	463	86	51	70	32
Pesticides	15	21	4	24	4	3	4	2
Chemicals	22	30	6	34	6	4	5	2
Fuel	91	127	26	143	26	16	22	10
Machinery repairs	78	109	22	122	23	13	19	9
Hired labor	620	866	178	973	181	107	148	68
Machinery purchases	484	677	139	761	141	81	116	53
Barn costs	568	794	163	892	166	98	136	63
Hours of labor used (thousands)	631	883	181	992	184	109	151	70
Labor years equivalent	304	424	87	477	88	53	73	33
Value of quota (millions)	$13.8	$19.3	$4.0	$21.7	$4.0	$2.4	$3.3	$1.5

	Campbell	Carlisle	Carroll	Carter	Casey	Christian	Clark	Clay
Number of quotas	522	457	602	1,745	2,585	2,347	1,479	1,511
Basic quota (thousands)	703	507	3,797	3,326	5,858	6,167	7,199	2,767
Expenditures for:								
Fertilizer and lime	45	32	243	213	374	394	468	177
Pesticides	2	2	13	11	19	20	24	9
Chemicals	3	2	18	16	28	29	34	13
Fuel	14	10	75	66	115	121	142	55
Machinery repairs	12	9	64	56	99	104	122	47
Hired labor	95	68	510	447	787	829	968	372
Machinery purchases	74	53	399	349	615	647	756	291
Barn costs	87	62	468	410	722	760	887	341
Hours of labor used (thousands)	96	69	520	456	803	845	986	379
Labor years equivalent	46	33	250	219	386	406	474	182
Value of quota (millions)	$2.1	$1.5	$11.4	$10.0	$17.6	$18.5	$21.6	$8.3

	Clinton	Cumberland	Daviess	Edmonson	Elliott	Estill	Fayette	Fleming
Number of quotas	1,541	1,147	2,432	1,106	1,101	903	1,428	1,678
Basic quota (thousands)	2,302	2,506	6,952	1,794	2,081	1,560	12,219	7,505
Expenditures for:								
Fertilizer and lime	147	160	444	115	133	100	781	480
Pesticides	8	8	23	6	7	5	40	24
Chemicals	11	12	33	8	10	7	57	35
Fuel	45	49	137	35	41	31	241	148
Machinery repairs	39	42	117	30	35	26	207	127
Hired labor	309	337	934	241	280	210	1,642	1,009
Machinery purchases	242	263	730	188	219	164	1,283	788
Barn costs	284	309	856	221	256	192	1,505	925
Hours of labor used (thousands)	315	343	952	246	285	214	1,674	1,028
Labor years equivalent	152	165	458	118	137	103	805	494
Value of quota (millions)	$6.9	$7.5	$20.9	$5.4	$6.2	$4.7	$36.6	$22.5

	Franklin	Gallatin	Garrard	Grant	Graves	Grayson	Green	Greenup
Number of quotas	1,149	515	1,372	1,617	1,068	2,231	1,758	1,108
Basic quota (thousands)	5,707	2,164	7,377	5,786	835	3,883	5,966	1,960

ECONOMIC CONTRIBUTIONS OF BURLEY TOBACCO TO THE ECONOMY OF KENTUCKY COUNTIES—Continued

	Franklin	Gallatin	Garrard	Grant	Graves	Grayson	Green	Greenup
Expenditures for:								
Fertilizer and lime	365	138	471	370	53	248	381	125
Pesticides	19	7	24	19	3	13	20	6
Chemicals	27	10	35	27	4	18	28	9
Fuel	112	43	145	114	16	76	118	39
Machinery repairs	96	37	125	98	14	66	101	33
Hired labor	767	291	991	778	112	522	802	263
Machinery purchases	599	227	775	608	88	408	626	206
Barn costs	703	267	909	713	103	478	735	241
Hours of labor used (thousands)	782	296	1,011	793	114	532	817	268
Labor years equivalent	376	143	486	381	55	256	393	129
Value of quota (millions)	$17.1	$6.5	$22.1	$17.3	$2.5	$11.6	$17.9	$5.9

	Hancock	Hardin	Harrison	Hart	Henderson	Henry	Hopkins	Jackson
Number of quotas	825	2,503	1,579	2,250	675	1,404	408	1,704
Basic quota (thousands)	2,326	4,379	9,323	8,762	819	9,474	385	3,098
Expenditures for:								
Fertilizer and lime	149	280	596	560	52	605	25	198
Pesticides	8	14	31	29	3	31	1	10
Chemicals	11	21	44	41	4	45	2	15
Fuel	46	86	184	173	16	187	8	61
Machinery repairs	39	74	158	148	14	160	7	52
Hired labor	313	588	1,253	1,178	110	1,273	52	416
Machinery purchases	224	460	979	920	86	995	40	325
Barn costs	287	539	1,149	1,079	101	1,167	47	382
Hours of labor used (thousands	319	560	1,277	1,200	112	1,298	53	424
Labor years equivalent	153	283	614	577	54	624	25	204
Value of quota (millions)	$7.0	$13.1	$28.0	$26.3	$2.4	$28.4	$1.0	$9.3

	Jefferson	Jessamine	Johnson	Kenton	Knox	Larue	Laurel	Lawrence
Number of quotas	456	1,346	735	959	957	1,392	2,862	736
Basic quota (thousands)	662	6,856	767	1,459	1,055	3,198	4,457	760
Expenditures for:								
Fertilizer and lime	42	438	49	93	67	204	285	49
Pesticides	2	23	3	5	3	11	15	3
Chemicals	3	32	4	7	5	15	21	4
Fuel	13	135	15	29	21	63	88	15
Machinery repairs	11	116	13	25	18	54	75	13
Hired labor	89	921	103	196	142	430	599	102
Machinery purchases	70	720	81	153	111	336	468	80
Barn costs	82	845	94	180	130	394	549	94
Hours of labor used (thousands)	91	939	105	200	145	438	611	104
Labor years equivalent	44	452	51	96	70	241	294	50
Value of quota (millions)	$2.0	$20.6	$2.3	$4.4	$3.2	$9.6	$13.4	$2.3

	Lee	Lewis	Lincoln	Logan	Lyon	McCracken	McLean	Madison
Number of quotas	626	1,411	2,398	2,136	366	894	1,022	2,152
Basic quota (thousands)	646	4,613	6,548	3,464	456	1,140	1,478	10,762
Expenditures for:								
Fertilizer and lime	41	295	418	221	29	73	94	688
Pesticides	2	15	22	11	2	4	5	36
Chemicals	3	22	31	16	2	5	7	51
Fuel	13	91	129	68	9	22	29	212
Machinery repairs	11	78	111	59	8	19	25	182
Hired labor	87	620	880	466	61	153	199	1,446
Machinery purchases	68	484	688	364	48	120	155	1,130
Barn costs	80	568	807	427	56	140	182	1,326
Hours of labor used (thousands)	88	632	897	475	63	156	203	1,474
Labor years equivalent	43	304	431	228	30	75	97	709
Value of quota (millions)	$1.9	$13.8	$19.7	$10.4	$1.4	$3.4	$4.4	$32.3

	Magoffin	Marion	Marshall	Mason	Meade	Menifee	Mercer	Metcalf
Number of quotas	1,423	1,420	646	1,172	1,176	734	1,610	1,587
Basic quota (thousands)	1,801	5,455	428	8,763	1,771	1,479	6,766	5,433
Expenditures for:								
Fertilizer and lime	115	349	27	560	113	94	432	347
Pesticides	6	18	1	29	6	5	22	18
Chemicals	8	26	2	41	8	7	32	26
Fuel	35	107	8	173	35	29	133	107
Machinery repairs	30	92	7	148	30	25	114	92
Hired labor	242	733	58	1,177	238	199	909	730
Machinery purchases	189	573	45	920	186	155	710	570
Barn costs	222	672	53	1,080	218	182	834	669

ECONOMIC CONTRIBUTIONS OF BURLEY TOBACCO TO THE ECONOMY OF KENTUCKY COUNTIES—Continued

Hours of labor used (thousands)	247	747	59	1,201	243	103	927	744
Labor years equivalent	119	359	28	577	117	97	446	358
Value of quota (millions)	$5.4	$16.4	$1.3	$26.3	$5.3	$4.4	$20.3	$16.3

	Monroe	Montgomery	Morgan	Muhlenberg	Nelson	Nicholas	Ohio	Oldham
Number of quotas	1,797	1,228	1,739	808	1,672	878	1,911	580
Basic quota (thousands)	3,695	6,470	4,004	970	4,575	5,518	2,655	1,548
Expenditures for:								
Fertilizer and lime	236	413	256	62	292	353	170	99
Pesticides	12	21	13	3	15	18	9	5
Chemicals	17	30	19	5	22	26	12	7
Fuel	73	127	79	19	90	109	52	31
Machinery repairs	62	109	68	16	77	93	45	26
Hired labor	497	870	538	130	615	712	357	208
Machinery purchases	388	679	420	102	480	579	279	163
Barn costs	455	797	493	119	564	680	327	191
Hours of labor used (thousands)	506	886	549	133	627	756	364	212
Labor years equivalent	243	426	264	64	301	363	175	102
Value of quota (millions)	$11.1	$19.4	$12.0	$2.9	$13.7	$16.6	$8.0	$4.7

	Owen	Owsley	Pendleton	Powell	Pulaski	Robertson	Rockcastle	Rowan
Number of quotas	1,356	1,136	1,398	640	4,014	446	1,494	960
Basic quota (thousands)	7,966	1,873	4,997	1,018	6,756	2,493	3,208	1,619
Expenditures for:								
Fertilizer and lime	509	120	319	65	432	159	205	103
Pesticides	26	6	16	3	22	8	11	5
Chemicals	37	9	23	5	32	12	15	8
Fuel	157	37	98	20	133	49	63	32
Machinery repairs	135	32	84	17	114	42	54	27
Hired labor	1,071	252	672	137	907	335	431	218
Machinery purchases	836	197	525	107	709	262	337	170
Barn costs	981	231	616	125	832	307	395	199
Hours of labor used (thousands)	1,091	257	685	139	926	342	439	222
Labor years equivalent	525	123	329	67	445	164	211	107
Value of quota (millions)	$23.9	$5.6	$15.0	$3.1	$20.3	$7.5	$9.6	$4.9

	Russell	Scott	Shelby	Simpson	Spencer	Taylor	Todd	Trigg
Number of quotas	2,026	1,472	2,094	1,165	837	1,749	1,252	872
Basic quota (thousands)	3,373	10,373	11,324	2,042	4,243	4,979	2,584	1,645
Expenditures for:								
Fertilizer and lime	216	663	724	131	271	318	165	105
Pesticides	12	34	37	7	14	16	9	5
Chemicals	16	492	53	10	20	23	12	8
Fuel	66	204	223	40	84	98	51	32
Machinery repairs	57	175	191	35	72	85	44	28
Hired labor	453	1,394	1,522	274	570	669	347	221
Machinery purchases	354	1,098	1,189	214	416	523	271	173
Barn costs	416	1,278	1,395	252	523	613	318	203
Hours of labor used (thousands)	462	1,421	1,551	280	581	682	354	225
Labor years equivalent	222	683	746	135	280	328	170	108
Value of quota (millions)	$10.1	$31.1	$34.0	$6.1	$12.7	$14.9	$7.7	$5.0

	Trimble	Warren	Washington	Wayne	Webster	Whitley	Wolfe	Woodford
Number of quotas	764	3,157	1,493	1,902	363	639	961	1,015
Basic quota (thousands)	3,790	6,022	6,850	2,956	322	596	2,035	10,505
Expenditures for:								
Fertilizer and lime	242	385	438	189	21	38	130	671
Pesticides	13	20	23	10	1	2	7	35
Chemicals	18	28	32	14	2	3	10	49
Fuel	75	119	135	58	6	12	40	207
Machinery repairs	64	102	116	50	5	10	34	178
Hired labor	509	809	921	397	43	80	273	1,412
Machinery purchases	398	632	719	310	34	63	214	1,103
Barn costs	467	742	844	364	40	73	251	1,294
Hours of labor used (thousands)	519	825	938	405	44	82	279	1,439
Labor years equivalent	250	397	451	195	21	39	134	692
Value of quota (millions)	$11.4	$18.1	$20.6	$8.9	$1.0	$1.8	$6.1	$31.5

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